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# FINANCIAL TIMES

Europe's Business Newspaper

MONDAY OCTOBER 3 1994

0523

## Chrysler plans to reduce number of parts suppliers

Chrysler plans to cut the number of main vehicle component suppliers it uses from 1,200 at present to only about 150. The US carmaker is also expected to approve a rise in spending to some \$22.5bn for 1995 -89 compared with \$20bn planned for 1994-98.  
Page 20

**Steel plan faces collapse:** The European Commission's plan to cut steel output faces certain failure, German steelmakers say, because Europe's current recovery will make it impossible to reach agreement. Page 2

**Dresdner Bank and Banque Nationale de Paris** plan to make joint acquisitions in Europe, further strengthening the partnership they set up last year. They also plan to merge Spanish operations early next year. Page 21

**Anti-Yeltsin protesters fly the red flag**

About 7,000 communist sympathisers paraded with red flags in Moscow, chanting "Boris Yeltsin is a murderer". They were commemorating those killed a year ago when the Russian president's tanks crushed an attack on the White House. Led by mourners carrying photographs of slain relatives, the protesters included a motley collection of communists, neo-fascists, priests and army officers.

**Woolworth chief quits:** Woolworth chief executive William Lavin has quit the US retailer over differences with the board. His departure comes less than five months after he was stripped of the chairmanship. Page 21

**London Stock Exchange** is considering amending its rules on short selling - selling securities one does not already own in the hope of buying them back more cheaply - to limit market manipulation. Page 21

**French yard wins order:** French shipyard Chantiers de l'Atlantique, owned by Anglo-French group CEC Alsthom, landed a provisional order for two luxury liners from Royal Caribbean Cruises of Miami in a deal which could be worth \$600m.

**Police fire on demonstrators:** Indian police killed four people and wounded at least 10 when they fired on Uttar Pradesh separatists. The protesters were at Muzaffarnagar, heading for a rally in New Delhi about 60 miles away.

**Pakistan bomb blast kills six:** Six people were killed and 20 wounded when a bomb exploded in a bus about 94 miles from Islamabad.

**Vietnam exchanges Communist Vietnam's first** stock exchange is expected to be operational by early 1995, the country's official news agency said. It will begin with small-scale trading in bonds issued by government, local authorities, commercial banks and state companies.

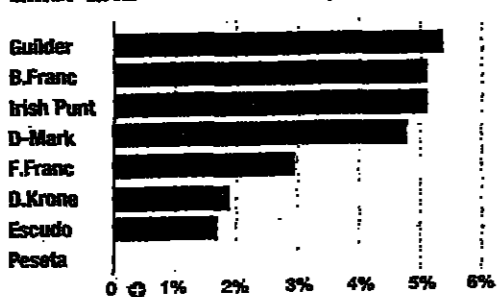
**Inching towards equal pay:** British women earn only 79 per cent as much as men, the Equal Opportunities Commission says. The figure has risen eight percentage points since equal pay laws were passed in 1975.

**Medlar victorious:** Vladimir Medlar, twice Slovakia's prime minister, won a commanding victory in weekend elections, opening the prospect of an alliance between socialists and extreme nationalists in the next government. Page 20

**Academia overseas:** Work has started in Thailand on the first British university to be built outside the UK. Funded by Thai financiers, it will be staffed by British academics and will award degrees validated by UK universities. Page 7

**European Monetary System:** Rankings on the EMS grid scarcely changed last week and there was little movement on the European crosses in spite of turmoil on world financial markets. With the German elections looming, the D-Mark weakened, bringing it down below the Irish punt. The Dutch guilder slipped back slightly and French franc strengthened fractionally. Currencies, Page 37

**EMS: Grid** September 30, 1994



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies can fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

**Serbs block convoys:** Bosnian Serbs reneged on a pledge to unblock seven UN relief convoys.

**Den of thieves:** Congo police traced a crime wave in Brazzaville to a gang already in prison. A corrupt guard let gang members slip out of jail, commit armed robberies and return to their cells.

**Racing:** Carnegie, owned by Dubai's Sheikh Mohammed, won the Prix de l'Arc de Triomphe in Paris.

Austria	90.32	Greece	105.50	Malta	101.00	Qatar	101.00	Qatar	101.00
Belgium	90.32	Hong Kong	105.50	Morocco	101.00	S.Arabia	101.00	S.Arabia	101.00
Denmark	90.32	India	105.50	Norway	101.00	Spain	101.00	Spain	101.00
France	90.32	Italy	105.50	Sweden	101.00	Switzerland	101.00	Switzerland	101.00
Germany	90.32	Japan	105.50	Taiwan	101.00	Thailand	101.00	Thailand	101.00
Greece	90.32	Korea	105.50	Turkey	101.00	U.A.E.	101.00	U.A.E.	101.00
Ireland	90.32	Lebanon	105.50	U.S.A.	101.00	U.S.A.	101.00	U.S.A.	101.00
Italy	90.32	Luxembourg	105.50	U.K.	101.00	U.K.	101.00	U.K.	101.00
Japan	90.32	Netherlands	105.50	Yemen	101.00	Yemen	101.00	Yemen	101.00
Korea	90.32	Portugal	105.50	Zimbabwe	101.00	Zimbabwe	101.00	Zimbabwe	101.00
Lebanon	90.32	Saudi Arabia	105.50						
Luxembourg	90.32	Singapore	105.50						
Malta	90.32	Taiwan	105.50						
Morocco	90.32	Thailand	105.50						
Norway	90.32	U.A.E.	105.50						
Sweden	90.32	U.S.A.	105.50						
Switzerland	90.32	U.K.	105.50						
Taiwan	90.32	Yemen	105.50						
Turkey	90.32	Zimbabwe	105.50						
U.A.E.	90.32								
U.S.A.	90.32								
U.K.	90.32								
Yemen	90.32								
Zimbabwe	90.32								

## US and Japan both claim victory in trade dispute

By Michio Nakamoto in Tokyo, Nancy Dunne in Washington and Richard Waters in New York

The US and Japan both claimed victory yesterday after reaching a partial settlement of their long-running trade dispute. The deal averts the immediate threat of a trade war between the world's two largest economies.

The agreement on opening Japan's markets to US goods and services is also expected to influence currency markets, which had strengthened the yen on fears that the two countries would be unable

to resolve the conflict. The last-minute negotiations resulted in agreement on opening the Japanese glass, insurance and government procurement markets - the first results of 14 months of tough talks under the framework pact.

However, the two sides were unable to reach a deal to lower barriers in Japan's vehicle and auto parts market. Foreign producers capture just 2.6 per cent of total sales in Japan, compared with 47 per cent in the US. Japanese vehicle and auto parts exports account for 60 per cent of the US's \$80bn annual trade deficit with Japan.

The US will start an investigation into Japan's replacement car parts market under Section 301 of US trade law, which could lead to sanctions against Japan in 12 to 18 months. The inquiry is being carried out under Section 301 rather than the more aggressive Super 301, under which Japan might be labelled an unfair trader.

Mr Mickey Kantor, the US trade representative, said Japan's car market remained discriminatory but noted that Japan's willingness to reach deals in other areas had been a factor in withholding a Super 301 designation.

In spite of the US move, Mr Ryutaro Hashimoto, Japan's trade minister, said Tokyo was open to further discussion with the US on this issue.

However, the two sides were likely to benefit from a cooling-off period before resuming discussions, he said. "In the area of auto and auto parts it is very regrettable that despite vigorous efforts in sincere discussions since July last year, the US government has decided to initiate a Section 301 investigation of the auto replacement parts."

The apparent success of the latest round of negotiations will provide the

Japanese government of prime minister Murayama with a welcome respite from one potentially explosive issue.

Meanwhile, with the immediate danger of sanctions behind them, officials were able to congratulate themselves on having averted another sharp jump in the yen's value, which could have undermined the country's anaemic recovery. US companies in industries where the two sides agreed on market-

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## IMF split over plan to boost world reserves

Fund chief at odds with G7 nations over SDR issue

From Peter Norman, Economics Editor, in Madrid

Industrial countries' plans to boost the world's monetary reserves by \$23.5bn hung in the balance yesterday after developing country members of the International Monetary Fund denounced them as insufficient.

Differences over proposals for a selective issue of the IMF's own reserve asset - known as the special drawing right - plunged the IMF's policymaking Interim Committee into what one official described as a "flaming row" yesterday.

At issue was a UK-US plan, adopted by the Group of Seven leading industrial nations, to allocate SDR16bn (\$23.5bn) to IMF members through a complex formula intended to favour poor developing nations and former communist countries such as Russia.

Mr Philippe Maystadt, the Belgian finance minister and interim committee chairman, was last night trying to arrange a compromise, although it was unclear if he could succeed.

Some officials said the IMF itself could be thrown into crisis by the seemingly arcane dispute because Mr Michel Camdessus, the IMF managing director, had opposed the wishes of the industrial countries, which have a clear majority of votes on the fund's board.

The officials said Mr Cam-

dessus had alienated Mr Lloyd Bentsen, the US treasury secretary and representative of the fund's biggest shareholder, through his constant campaigning for a larger general SDR increase for all members of the IMF. Mr Camdessus's views had the backing of the fund's developing country members.

He has argued for a general issue of SDR36bn to all fund members which has been vigorously opposed by Germany, the US and Britain.

They maintain that there is no global need for new liquidity of this kind.

**MADRID CONFERENCE: PAGE 5**  
Full reports and analysis  
Lloyd Bentsen Page 19

Yesterday's meetings began hopefully enough. The discussions in the Interim Committee followed the unanimous agreement of the G7 on Saturday, although it later emerged that France had accepted the UK-US plan only grudgingly.

The SDR issue - the first such injection of liquidity into the world's monetary system since 1981 - was specially structured to benefit 37 countries, including Russia, that had joined the fund in recent years and had no SDRs in their reserves. It was also

Continued on Page 20



Businessmen's wives help sweep a street in Bombay as part of a cleanliness drive to prevent the spread of plague. News Digest, Page 3

## Object detected near Estonia wreck

By Christopher Brown-Humes in Stockholm

Finnish investigators said last night they had detected a large object lying close to the sunken Baltic ferry Estonia, heightening speculation that the vessel capsized because of the loss of an outer bow door.

Mr Jouko Nourteva, a Finnish marine geologist, said the object was lying 10 to 20 metres from the bow, but it was not clear if it was part of the roll-on roll-off ship.

Swedish officials have said the Estonia's outer bow door may have been ripped off in heavy seas last Wednesday, causing water to surge into the car deck and capsize the ferry within minutes. Only about 140 of the vessel's 1,950 passengers survived.

The Estonia, operated by the Swedish-Estonian company Estline, was sailing from the Estonian capital, Tallinn, to Stockholm when she sank in stormy seas. Mr Nourteva, who

located the wreck on Friday using sophisticated sonar equipment, said: "The observation of a large object is certain because it was seen on all four sonar pictures that were taken."

As memorial services were held at churches throughout Sweden, Finland and Estonia yesterday, a Finnish search vessel carrying robot-mounted cameras yesterday filmed the Estonia wreck to try to assess why the vessel sank and the difficulty of recovering the 800 bodies believed to be inside.

Investigators said the pictures from the search vessel were of

"very good quality", but added they would not be commenting on them until they had analysed them more closely. The ferry is lying in around 80m of water, 40k off the Finnish island of Uto.

Sweden, Denmark, Finland and Norway have all ordered urgent safety checks on roll-on roll-off ferries sailing in their waters amid reports of problems with the bow doors of other ships.

Sweden's Stena Line, the world's leading ferry operator, has withdrawn one of its Irish Sea ferries from service because of problems with the bow-door locking mechanism. It said one of

the locking pins of the 14-year-old Stena Felicity had sheared off, although there had been no water penetration. Officers on the Felicity unloaded cars and lorries through the stern doors of the 23,000-ton vessel. Stena said the problem was caused by an electrical fault.

A fault was discovered on the vessel last month after the port-side outer door was found to be jammed shut, which used to operate in the Baltic Sea.

Ferry evacuation rules questioned, Page 2

## BSkyB faces early decision on flotation in US and Britain

By Raymond Snoddy in London

British Sky Broadcasting will have to decide this week if it is to go ahead with a flotation before Christmas on the London and New York stock exchanges. Shareholders of the satellite television venture have been in talks for the past month trying to hammer out an agreement on a flotation that would value the company at more than \$4bn.

Immediate agreement would allow a share issue to go ahead between now and Christmas - the season when most new satellite dishes and subscriptions are sold.

If this opportunity is missed conditions for a flotation might not be as favourable again until the autumn of next year.

Unanimous agreement is almost certainly needed between the main shareholders - Mr Rupert Murdoch's News Corporation, Chargeurs, the French transport and media group, Pear-

son, the media group that owns the Financial Times, and Granada, the UK media, leisure and computer services company.

A flotation would be difficult to organise without the agreement of all the main shareholders because all four have pre-emption rights to buy if any of the others want to sell.

In addition, there are complex tax issues involved in replacing debt with equity. Mr Murdoch, advised by Goldman Sachs, is keen to float, primarily in order to reduce debt and release capital to invest in his Asian satellite venture, Star TV. There may also be a political dimension. In the UK, a future Labour government could present News Corp with the choice of selling its national newspapers or reducing its 50 per cent stake in BSkyB. The latest date for the next general election in Britain is 1997.

Granada has frequently said it would sell its 13.5 per cent stake under the right conditions.

Pearson, advised by Lazard Brothers, has suggested it might be interested in increasing its stake in BSkyB, which lifted its operating profits in the year to June from \$54.1m to \$178.8m. However, it is also not thought to be averse to a flotation.

The main obstacle to a flotation appears to be Chargeurs, which does not have a pressing need for funds and believes the value of the satellite company will rise. It may decide to hold on to its stake.

One possibility under consideration is to sell shares directly to the public, including BSkyB subscribers, as well as institutions. At the end of June, BSkyB had 3.45m subscribers, 74 per cent receiving the television channels on dishes with most of the rest attached to cable networks. At the weekend BSkyB added five new services to its Sky Multi-Channels package and increased all subscription charges by £3 a month.

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## NEWS: EUROPE

# Brussels steel plan expected to collapse

By Michael Lindemann in Bonn, Emma Tucker in Brussels and Andrew Baxter in London

The European Commission's plan to cut steel output is as good as dead, according to German steelmakers who say it will be impossible to reach agreement now that economic recovery is picking up across Europe.

German steel companies have indicated they are prepared to let the plan collapse and wait for the next recession before trying once more to agree on capacity cuts.

They are also happy to forego the aid package promised by the European Commission if the capacity cuts are agreed in full. This includes finance for redundancies, protection from cheaper eastern European imports and a quarterly system for monitoring steel output.

Any threat to the capacity cuts plan would be a big setback for Brussels, which has spent nearly two years cajoling steelmakers across Europe to cut capacity as Europe dragged itself through its worst post-war recession.

The latest development, however, vindicates the fears of some steel industry observers and private sector producers that a short-term rise in demand might be used as an excuse to postpone cuts designed to correct chronic overcapacity.

Last week at an EU ministerial meeting Mr Günther Rexrodt, German economics

minister, strongly criticised the steel industry for asking the commission to devise a rescue plan when times were hard, but abandoning it as soon as prices picked up.

"It is not good practice for the industry to enjoy support when things are bad and then to not reduce capacity when things get better," he said.

**'The plan is as good as dead - you can forget about further capacity cuts. We need more capacity'**

He spoke shortly after Mr Martin Bangemann, industry commissioner, announced that unless the EU's steel sector had produced the minimum level of cuts in capacity by November 8, the commission would withdraw its support.

So far industry has only achieved 11m tonnes of capacity cuts and is unlikely to meet the 19m minimum required under the plan by the beginning of November.

"The same thing happened in 1985 for the first big steel crisis," said a senior commission official. "Reductions in capacity then were below what was necessary, and this led to the second steel crisis in 1991."

But in Germany, one industry source said: "The plan is as

good as dead - you can forget about further capacity cuts. Take hot-rolling capacity - we're working flat out. We need more capacity."

The German Steel Federation said last week that output this year was expected to be 10 per cent higher than last year and that prices were beginning to improve. It said the German steel industry had shed 140,000 jobs over the last five years, costing producers about DM4bn (£1.5bn), and that it had made all the capacity cuts which could be expected, including last year's closure by Krupp-Hoesch of its Rheinfelden plant. Instead the Germans have pointed the finger at subsidised state-owned Italian and Spanish steelmakers for not doing their part.

German steelmakers may also argue that capacity cuts make little sense given that the future of Eko Stahl, the ailing steel plant in eastern Germany, is still uncertain.

Cockerill Sambre, the Belgian steel group, and the Bremen-based Hoescht group are leading the race for a stake in Eko Stahl and both have indicated they would invest in a hot-rolling mill which would probably produce about 2m tonnes annually.

Last month British Steel said European demand for strip mill products had risen significantly over recent months, and was expected to continue to strengthen. But there was also a shortage of steel, due partly to temporary closures of some European blast furnaces for refitting.

# Ferry evacuation rules questioned

The Estonia disaster may lead to a review of emergency procedures, writes Hugh Carnegie

The catastrophic failure of lifeboats and life rafts to save passengers in last week's Baltic ferry disaster is set to bring demands for a review of emergency procedures on passenger vessels as well as the review promised by the International Maritime Organisation of the design of roll-on, roll-off ships.

One of the most distressing sights from the rescue operation of the Estonia, which capsized and sank with the loss of more than 900 lives, was of dozens of life rafts discovered either empty, or in many cases swamped by icy water and containing the bodies of people who drowned or died of exposure despite managing to clamber aboard the rubber boats. Only a handful of the Estonia's large lifeboats were even launched.

"I can agree that the equipment was not doing its job since so many died, but it is up to the rule makers and designers to look into this," Mr Sten Forsberg, technical director of Nordström and Thulin, the Swedish co-operator of the Estonia, said at the weekend. "I am quite sure that the aftermath of this tremendous tragedy will result in stricter regulations for life-saving equipment."

The chilling evidence from the Estonia suggests that in a case where a ship lists suddenly and heavily, the ordered evacuation of passengers in lifeboats and life rafts can quickly become a virtually impossible task, especially in stormy conditions and with panic surging through a stricken ship. A spokeswoman



The Swedish flag is draped in black for yesterday's day of mourning for the ferry disaster

for the Viking Line, a Finnish-based operator in the Baltic which used to run the Estonia, said in the best conditions preparing and launching lifeboats takes 15 to 20 minutes. "But in conditions like those faced by the Estonia, the system can quickly break down," she said. Ship operators say lifeboats cannot be launched if a ship is listing more than 15 degrees. But in heavy seas, a lesser list

may make launching impossible. As both lifeboats and many life rafts are designed to be loaded with passengers before being lowered into the water, this means that even in conditions much less severe than those faced by the Estonia, evacuating passengers by lifeboat falls.

The Estonia carried rubber life rafts packed in plastic containers. The rafts were

designed to pop up to the surface and self-inflate once submerged below a depth of four metres - which they did. But most clearly were easily swamped by the high seas, as water washed in through the door in their weatherproof covers. One survivor said the raft he clambered on to was upside down.

The Swedish newspaper, Dagens Industri, on Saturday

quoted Mr Jens Peter Bie, an executive at the Danish company Viking Life-Saving Equipment, which supplied life rafts to the Estonia, as saying the rafts on the ship were 14 years old. He said newer, self-inflating and self-righting rafts were available, but ship owners were deterred from buying them by costs 30-40 per cent greater than standard rafts.

Mr Harri Kulovara, operations chief for the Finnish-run Silja Line, said: "I believe the rubber life rafts can be more effective than the traditional lifeboats - they are much easier to launch and use. But they must be launched properly."

Questions have also been raised since the Estonia disaster about the way ferry operators brief passengers on emergency procedures. The requirement under IMO regulations falls well short of the obligatory safety demonstrations made on airlines.

No lifeboat drill is required on the 12-14 hour overnight sailings that are the common duration on Baltic routes and none are offered by the operators.

Swedish and Finnish operators say their crews are regularly drilled to cope with emergencies. They make public announcements to stress to passengers the importance of reading the emergency procedure notices and run videos on passenger TV screens.

However, as the Estonia catastrophe showed, even the best prepared crews and passengers can be quickly overcome when a ship begins to list and sink.

# German seeks new EU cartel authority

By Judy Dempsey in Berlin

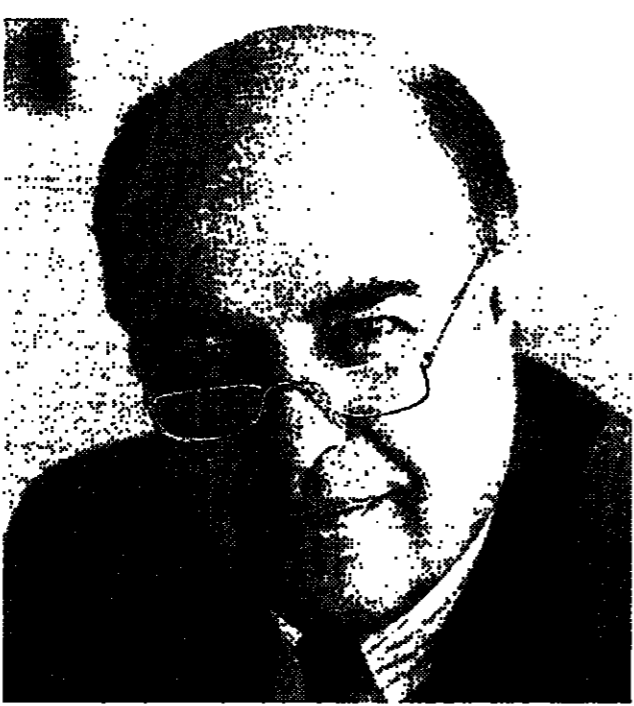
European anti-trust decisions should be made by an independent authority instead of the European Commission in order to reduce political interference, the head of the German cartel office has told the Financial Times.

Mr Dieter Wolf said he hopes Germany will place such a proposal on the agenda of the Intergovernmental Meeting scheduled for 1996.

Mr Wolf, a staunch advocate of reducing political influence in mergers and anti-trust decisions, said the current decision-making structures in Brussels were not transparent enough and were often susceptible to "political lobbies".

"I am not blaming the Commissioners for this. But it is a consequence of the structure of decision-making. Every commissioner has different tasks to fulfil. But he is also a politician. His understanding of the task is also a political one," said Mr Wolf.

What concerns the cartel office, which has often been



Wolf: campaigning against political interference

criticised for not taking a more robust attitude towards mergers within Germany, especially in the retailing and media sectors, is that there are too many interest groups in Brussels lobbying behind the scenes on anti-trust decisions. "It is sometimes unclear why some merger decisions are made," he said, adding that "Brussels wants to keep the monopoly of granting exemptions from [individual] cartel prohibitions".

"Merger decisions contain sharp interventions from the state into the market. Take the case of capital allocation," he said. "If there is a proposal for a merger between a French and a German company it is clear [the decision] has direct repercussions on where the investments will take place. It involves getting influence on

the flow of capital. Maybe this is very attractive and seductive for politicians. But that is why it makes it all the more necessary for an independent body to decide on the basis of law."

Mr Wolf, however, denied suggestions that the independent body would be modelled on Germany's own cartel office, which he claimed was "completely independent from political interference". Instead, as a first step he proposed that it be controlled by the European Court in Luxembourg, but added that "the need and possibility for it to overrule a decision for reasons of public interest would have to exist".

Mr Wolf conceded that Germany had not yet received any substantial backing for its proposals but added that France is becoming increasingly attracted to the idea.

# Tragedy overshadows PM's demise

John Lloyd talks to the politician whose policy success was clouded by secret deals

After last week's tragic events in Estonia, the fall of Mr Mart Laar, prime minister of the country for two years, has been sidetracked. The sinking of the ferry Estonia revealed a country still unable to absorb the technological and moral consequences of the disaster: but the forced resignation of Mr Laar has so far shown a political nation determined to observe a constitutional order still in its infancy.

Estonia is by some way the most successful of the former Soviet states in sloughing off a forced Sovietisation, and Mr Laar, in what was by post-communist standards a long premiership, was the central figure in the success. Dr Werner Unger, the former German ambassador to the European Commission, in Tallinn last week to advise on the country's efforts to accede to the European Union, ran through a checklist of achievements: "A pluralistic democracy, a market economy, liberalised trade, 60 per cent of enterprises privatised, GDP growing, unemployment (1.8 per cent) much lower than western Europe, no budget deficit, public debt 5 per cent of GDP, exports growing, imports growing more rapidly because of the purchase of investment goods and an influx of foreign investment. Wonderful."

Why on earth should a prime minister go after all of that? Because he was seen to conceal vital matters from parliament, a grave matter in a plain-speaking state. Soon after his accession to office in

October 1992, he and Mr Siim Kallas, chairman of the Estonian central bank, sold nearly Rbs2 bn which had been dumped in the bank just before the country adopted its own kroon currency - to Cheyva, the rebel Russian republic. It was done secretly, by intermediaries who were close to the prime minister, and it came to light only this year; it was underscored by the revelation of another secret Laar deal: to buy small arms from Israel for Estonia's new armed forces.

The case against is that Mr Laar concealed the deal, and may have allowed intermediaries to benefit (there has been no public charge that he benefited himself) and thus damaged a still fragile democratic system. His defence, vigorously put in an interview, is that "there was no time for discussion; Kallas and I were the monetary committee charged with all matters affecting the introduction of the new currency; and frankly, the money helped us enormously in making the budget."

The three-to-one vote against him in the parliament last week he interprets as a signal that the parties in coalition with his Pro Patria group, unable to sustain the hard pounding attendant on severe observance of a tight money programme, were seeking ways out. The social democrats, whose defection sealed his fate, left because they could not get a rise in the low unemployment benefit. For the neo-liberal Mr Laar, issues like these are fundamental. "We

have been pressing hard on the people out of work to get other jobs. We won't increase the benefit except to those who take training for new jobs. And you see the result: low unemployment."

The two institutions which have done most to ingrain the market culture into Estonia - the Laar cabinet and the central bank - remain very largely confident that they have shorn up capitalism against any future ruin.

Nowhere else in the post-Soviet mosaic has such a self-confident cadre of reformers emerged. Mr Enn Teimann, the deputy chairman of the bank, says that "the legislation of the country [which forbids the central bank to lend money to the budget] will not allow irresponsibility. It is possible that politicians can change this but I don't fear it."

The prime minister, who had in parliament warned that Estonia was still a fragile



Mart Laar: forced to resign last week as Estonia's prime minister

country vulnerable to populism, appeared to largely discount that: "It would be very hard. There has been such a change of character in the people. The old communist *nomenklatura* has no nose."

Mr Laar's optimism is bolstered by the fact that his partner in the concealed real deal, central bank chairman Kallas, has emerged as the candidate of the right for prime minister, and is supported by some of those who passed the vote of censure on the prime minister.

The opposition parties are very much divided: the only candidate talked of is Mr Tiit Vahi, briefly prime minister before Mr Laar, who, says the latter, left him a legacy of high inflation and an untackled structural crisis. "For the first months I had an appointment book which was full from morning to night with meetings with directors, who wanted the cheap credit they had always got. I told each of them 'you cannot get it.'"

Choosing a new prime minister is the task of Mr Lemart Meri, the president - a role with limited powers which, Mr Laar (no ally) says he constantly tried to exceed. Mr Meri, consumed last week with the dolorous task of giving public representation to his country's loss, will this week resume the talks with faction leaders from which a candidate should come. His own preference is for a centrist figure: Mr Kallas is not that. Estonia may be in for a change of course: but it will not be fundamental.

# Walesa makes his peace with Solidarity union

By Christopher Bobinski in Warsaw

President Lech Walesa made peace with the Solidarity trade union movement and attacked Poland's centre-left coalition government at the weekend for slowing down reform, in the opening salvoes of what promises to be a long campaign to win him a second term in elections due in November 1995.

"The left wing's paw has grown too large," he told sceptical dele-

gates at Solidarity's annual congress. Mr Walesa led the movement to victory over the communists five years ago but the union last year refused to invite him, for failing to support the movement's shop floor aims and being "too soft" on the former communists, the Left Democratic Alliance (SLD). The SLD has been in government with the PSL farmers' party since the autumn of 1993.

"Old methods of government are

returning. Poland faces the threat of stagnation," Mr Walesa said as he appealed to the union to agree to become part of a federation of Solidarity-based parties to win parliamentary elections in 1997 and next year's presidential ballot.

Soon after the president's speech Mr Waldemar Pawlak, the prime minister, went on television to say that Poland's Mass Privatisation Scheme (MPP), covering 460 state sector enterprises, would be going

ahead ahead. Mr Pawlak has recently come under attack from opposition politicians and the media for delaying the scheme, under which the Polish people are to be given shares in specially established investment funds.

The funds, which will stay in existence for 10 years, are in turn to be handed equity in the 460 companies. The scheme has acquired a significance far outweighing its actual impact on privatising Poland's 5,000

or so state sector enterprises as both the World Bank and the IMF have made disbursement of loans, helping to finance Poland's recent London Club commercial bank debt reduction deal, conditional on the MPP moving ahead.

Mr Pawlak, however, dismissed opposition warnings that Poland's standing with these institutions would plummet and the debt agreements collapse as a result of the delay since July. Instead Mr Pawlak

explained he was worried that foreign fund managers were being given too great a role in the MPP.

He also expressed his view that the enterprises which were to be privatised through the scheme had been undervalued.

Once these doubts had been removed the plan would go ahead, Mr Pawlak said.

A cabinet meeting is to examine the programme tomorrow.

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## INTERNATIONAL NEWS DIGEST

## Delhi plague fears recede

Schools in Delhi, closed last week because of the plague which has hit India, are to re-open tomorrow amid claims by health officials that the disease is being brought under control. But Pakistan, meanwhile, has banned entry of foreign nationals travelling from India because it fears spread of the plague.

The Pakistanis said all travel between India and Pakistan had been suspended except for returning Pakistani nationals, who will be subject to quarantine. Pakistan put 28 foreign nationals in quarantine at the border village of Wagha at the weekend, along with 320 returning Pakistanis. Officials said they would install telephone lines for the stranded travellers, who included 12 Malaysians and nationals from Iran, Morocco, Canada, Bahrain, Germany, Britain, Australia, South Africa, the US and Japan.

Delhi authorities decided to re-open schools because, they said, medical reports indicated a very high proportion of patients suspected of plague were in fact suffering from other illnesses. The number of suspected cases in India rose by 1,600 at the weekend to just over 4,000, according to the government's National Institute of Communicable Diseases. The official death toll is just over 50. *Stefan Wagstyl, New Delhi*

## Tension high in Indian state

Political tensions in the Indian state of Uttar Pradesh were running high last night, after police shot dead four demonstrators and injured 10. The demonstrators were on their way to New Delhi for a rally in support of demands for a separate state for the northern hills of Uttar Pradesh, where many feel alienated from the plainsmen who dominate the state. The clash was at Muzzafarnagar, 200km from Delhi. The Delhi rally of 50,000 people also turned violent when students, who have led the statehood campaign, protested against the presence of national politicians on the speakers' platform.

Demands for a hill state have been revived after a decision by the Uttar Pradesh administration, led by lower caste parties, to implement laws reserving up to 50 per cent of government jobs and college places for lower caste Hindus. The hill districts, where upper caste Hindus dominate, erupted with protests. The conflict has thrown the state administration into disarray and has embarrassed the Congress (I) party of Mr P V Narasimha Rao, the prime minister. *Stefan Wagstyl, New Delhi*

## Turkey in threat to Greece

Turkey has threatened Greece with war if Athens extends its territorial waters in the Aegean into Turkish territory, foreign minister Mr Muztar Soyas said yesterday. Mr Soyas said he issued the warning to his Greek counterpart, Mr Karolos Papoulias, while both were at the UN General Assembly last week. "The Greek foreign minister told me that [Greece] had the right to extend its waters to 12 miles. I said that would lead to very serious consequences. We let it be known that we didn't want war but would go to war in such a situation," Mr Soyas has gained a reputation for being tough on Turkey's traditional rival, Greece, since becoming foreign minister in July. Though NATO allies, Turkey and Greece came to the brink of war in 1971 in a row over mineral rights in the Aegean. *Reuter, Ankara*

## Vietnam exchange to open

Vietnam's first securities exchange is expected to open early next year, the official Vietnam News Agency reported at the weekend. Quoting the central State Bank, it said the exchange would start "on a very small scale", with trading in bonds issued by the government, local authorities, commercial banks and state companies. Trading in shares of privatised state companies, only a handful of which have so far issued stock to shareholders, will follow later. The report confirmed that the State Bank and Finance Ministry's joint committee on setting up the exchange intended to go ahead despite the slow pace of privatisation. Vietnam, which currently has no secondary markets, sees the stock exchange as a vital part of market-oriented reforms launched in the late 1980s. *Reuter, Hanoi*

## Calls to clip Crimea's wings

Crimea's ongoing political struggle has prompted growing calls in Kiev for Ukraine to revoke the peninsula's status as an autonomous republic. If the crisis continues, Kiev must take direct control over Crimea, urged Mr Vladimir Mukhin, the Ukrainian parliament's defence commission chairman. He was backed by Ukraine's national security adviser, although Mr Volodymyr Horbulin urged time to let Crimeans resolve the problem without "tough measures". Crimea's parliament voted on Thursday to strip President Yuri Meshkov of most powers. When this happened last month Mr Meshkov suspended parliament but relented after two days. The struggle stems from disagreements over economic policy, cabinet appointments and speed of reintegration with Russia. Ukraine's government has taken advantage of the internal struggle to exert more control over the region. *Matthew Kaminski, Kiev*

## Radical right leader deposed

Mr Franz Schönhuber, co-founder and leader of Germany's extreme right-wing Republicans, was deposed at the weekend by a unanimous decision of his national executive. This follows a series of election defeats and secret negotiations between Mr Schönhuber and his erstwhile arch rival, Mr Gerhard Frey, leader of the equally extreme Deutsche Volkspartei (DVP). The 71-year-old Republicans' leader is the only nationally known figure in the party, and he immediately announced his determination to fight the move, which he said was illegal and contrary to party rules. *Quentin Peel, Bonn*

## Russian currency concerns deepen

By John Lloyd in Moscow

The fall in the rouble is "very dangerous" to the Russian government and could push reform off course because the government would lose the fragile confidence it created in the country earlier this year, according to the senior official concerned with the Russian budget.

Mr Sergei Alexashenko, the deputy finance minister, said, however, that his government was still prepared to take "unpopular" measures in order to attract international financial support for a reform programme.

In an interview with the FT, Mr Alexashenko said that there was very little the government could do to stem the flight from the rouble to the dollar. Mr Alexashenko said that the central bank had spent more than \$2bn (£1.2bn) defending the rouble in the past two to three months and on his calculation had only \$4bn-\$4.5bn left - "and after that, what, clearly, there is nothing".

The rouble has lost more than 16 per cent of its value against the dollar in the past week and at close of trading on Friday stood at Rbs2.633 to the dollar.

The deputy minister said that "there will be a drastic rise in the inflationary expectations of the people, and of course an increase in inflation itself - and in the medium term an increase in government expenditure. But the psychological result will be the mistrust of government policy and a continued outflow of funds from the rouble to hard currencies".

Mr Alexashenko - a young economist who was formerly in the "expert group" created by Professor Yevgeny Yastu, now a presidential adviser - has emerged as a key player in the battle to keep the government's tight money strategy on course and to argue with the international financial institutions for increased support. Brought into the government less than a year ago, he says that "the government of (prime minister Victor) Chernomyrdin is much tougher than (former prime minister Yegor) Gaidar's. This prime minister says No to everything".

Speaking in a break between hectic talks on the 1995 budget - already delayed in its promised delivery to the parliament - he said the assumptions for that budget would also be thrown into confusion by a continuing plunge in the value of the rouble. "We were assuming a certain dynamic in the exchange rate. We did not expect such a devaluation."

"If this continues we will have to change the budget's parameters - and cut down on expenditure. The process will be very hard."

The International Monetary Fund, now at its annual conference in Madrid, should "make clear its view one way or the other," said Mr Alexashenko. "For two years we had a lot of promises but little aid delivered."

"Now I believe the government is ready to take even unpopular decisions - but I'm not sure that either the IMF or the Group of Seven are ready to say what measures they will support," he said.

## Slovakia faces a shift to extremes of government

By Vincent Boland in Bratislava

If Mr Vladimir Meciar becomes prime minister after the weekend's general elections it will shift Slovak politics away from the centre ground occupied by the outgoing government and towards the extremes of both left and right.

The most likely new coalition will be between HZDS, the socialist Union of Slovak Workers (ZRS) and the extreme nationalists of the Slovak National Party (FNS), which between them could have 82 of the 150 seats in parliament. This presents Mr Meciar with a formidable hand of cards.

While Mr Meciar's appointment as prime minister is not yet guaranteed, observers in Bratislava said yesterday there were no other likely candidates among senior HZDS officials. Mr Meciar's outsize personality dominates the party.

If he is appointed, it leaves the way clear for him to carry out his campaign promises to undo voucher privatisation, curb the growing influence of Slovakia's ethnic Hungarian minority, and seek to oust President Michal Kovac, the man who helped force him out of office as prime minister six months ago.

The outgoing government of Mr Jozef Moravcik made hesitant progress towards restarting voucher privatisation in Slovakia, and began a process of rapprochement with Hungary over the issue of Slovakia's 580,000-strong ethnic-Hungarian minority, which is seeking greater autonomy over educational and cultural affairs.

HZDS is deeply suspicious of voucher privatisation because



Back in driving seat? Ex-prime minister Vladimir Meciar yesterday after his party had polled a third of the votes

it allows control of state assets to pass to what Mr Meciar terms "anonymous persons". His potential coalition partners are of a like mind, the ZRS fearing huge job losses as companies restructure under new ownership, and the SNS wanting complete state control over the economy as in the communist era.

Mr Meciar might have difficulty in reversing the voucher programme, though he is expected to try. Nearly 1m

Slovaks have bought vouchers which they can exchange for shares in a range of state companies the outgoing government has earmarked for inclusion in the programme.

"He can certainly interrupt it, but he may not be able to stop it," one observer said. "It will be difficult to buy back all those vouchers."

Both HZDS and SNS are fiercely opposed to greater autonomy for ethnic Hungarians, who make up more than

10 per cent of Slovakia's population, regarding it as tantamount to secession. Relations with Hungary have been cool since independence, and progress on drafting a comprehensive agreement between the two countries, begun under Mr Moravcik and tentatively scheduled for be ready next February, could now be in jeopardy.

Mr Meciar's greatest problem may yet lie in his relations with Mr Kovac. Mr Kovac orchestrated the campaign that ousted Mr Meciar in March, alleging widespread corruption in privatisation. In the last hours of his administration Mr Meciar approved more than 40 deals to sell state assets to their managers. The bitterness in relations between the two men, once allies in HZDS, will make co-operation extremely difficult.

It is still possible that the ZRS, with 13 seats, will decline to go into coalition with HZDS. It seems unlikely that the party's leader, Mr Jan Lupcak, would join a coalition with Mr Meciar because of his opposition to widespread privatisation, but he may yet agree to support such a government informally.

In that case Mr Moravcik could also count on the support of the ethnic-Hungarian parties, which will have 18 seats. A coalition of the DU, the FDL and the Christian Democrats with the support of the ZRS and the Hungarians would give Mr Moravcik 82 seats but a more unwieldy coalition than Mr Meciar could put together.

Whatever the make-up of the next government this election has failed to bring Slovakia much-needed stability.

## Biology weapons talks to go ahead

By Frances Williams in Geneva

Negotiations on measures to strengthen the 1972 treaty which outlaws biological weapons will start next January, treaty members decided at the weekend.

After two weeks of difficult talks in Geneva, some 80 governments agreed to establish an *ad hoc* group to draft proposals on verification, anti-cheating measures and other compliance issues.

However, industrialised and developing countries could not agree on how quickly to advance. The industrialised countries want the group, open to all 131 treaty members, to push on with a draft protocol for approval at the next treaty review conference, in 1996. But some developing countries want to proceed more cautiously.

They have succeeded in qualifying the group's mandate in ways that would allow it to produce non-binding recommendations or to delay completion of its work beyond 1996. Thus the stage is set for arduous negotiations when the group convenes in January.

Unlike related accords, the nuclear non-proliferation treaty and the chemical weapons convention, the biological weapons convention has no provisions against cheating.

Third World countries are worried by the threat which tougher measures to enforce compliance could pose to technology transfer and development of their own biotechnology industries. They also fear intrusive inspections of military facilities.

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## NEWS: WORLD TRADE

## WORLD TRADE NEWS DIGEST

## EU hopes for Uruguay Round

European Commission officials last night predicted that the EU would be able to ratify the Uruguay Round accord before the end of the year, ahead of the official deadline. The news will be welcomed by governments worried that the EU would not meet its side of the billion-dollar trade agreement on time. It will also send a positive signal to the US, whose own ratification procedures are hampered by uncertainty.

An announcement by the European Court of Justice that it would give its opinion on who has the power to negotiate in certain trade areas on November 15 ended a dispute between the Council of Ministers and the Commission over the legal basis for ratification. Officials, who were not expecting the judgment so early, said this allowed enough time to ratify before January 1. It has also emerged that the Council of Ministers has agreed to send the necessary paperwork to the European parliament to allow it to be consulted ahead of the deadline. "Both reasons make it all the more likely that we will come out in time," said the Commission.

The Commission asked the court for advice after member states argued that it did not have the authority to negotiate in areas such as services and intellectual property rights where no trans-EU legislation exists. Fears that the court would not produce a verdict early enough prompted the German presidency of the EU to work out a code of conduct under which the Commission would for most purposes be able to conduct trade negotiations, leaving member states to have their say in a few special circumstances. *Emma Tucker, Brussels*

## More Japanese car exports

Japan and the European Commission have revised upwards their forecasts for exports of Japanese cars to the EU by 9,000 cars, a rise of 1.3 per cent against the 1993 agreement.

The increase formed part of an agreement in July 1991 allowing for a transitional period during which time Japan will monitor exports to the EU and the five member states that previously restricted imports. It reflects the unexpectedly higher number of vehicle registrations this year. The Commission and the Japanese government now predict that demand this year will increase by 4.4 per cent. The forecast of exports to the five member states that previously restricted imports are France, 78,500; Italy, 47,000; Portugal 39,500; Spain, 35,500; UK 184,600. *Emma Tucker, Brussels*

## Contracts

Samsung Aerospace Industries and 31 other South Korean companies have formed a consortium to make commercial aircraft with China. A 100-seat pilot aircraft will be manufactured by 1998 at a cost of \$1.2bn, to be shared between the Chinese side and the South Korean consortium. Members of the consortium include Korean Air, Daewoo Heavy Industries, and Hyundai Corp's Hyundai Technology Development. *Reuters, Beijing*

Bombardier, the Canadian aerospace and transport equipment group, and SNC-Lavalin, Canada's biggest engineering group, will provide a C\$861m (\$717m) 30km, 25-station light transit system for Kuala Lumpur, for completion in 1998. Bombardier-SNC will build 70 vehicles and be responsible for system controls and rails. Renong of Malaysia will build the guideway and stations. Bombardier-SNC's share of the total contract is almost C\$800m. The transport system will be based on Vancouver's Skytrain. *Robert Gibbons, Montreal*

Philippine food and beverage giant San Miguel plans to build an aluminium can plant and is negotiating with Japan's Yamamura Glass to take part in the project. The plant, which SMC hopes to start building next January in General Trias, Cavite province, will have a capacity of 420m cans a year and is expected to be on stream by 1996. About 50 per cent of committed capacity would be exported to Hong Kong, China, Vietnam and Japan. *Reuters, Manila*

Siemens of Germany and Ansaldo SpA have won a contract to supply electrical equipment for 30 high-speed locomotives in Italy. The contract, awarded by the Italian state railway, is worth a total of DM220m (\$142.8m) with Siemens' part worth some DM50m. *AFX, Erlangen*

Japanese trading company Kanematsu has contracted to export 200,000 tonnes of Australian coal to China. The coal will be shipped next month for use by a thermal power plant in southern Guangdong province. *Reuters, Beijing*

China's steelmakers, facing rising stockpiles and falling prices at home, plan to export more. However, exports in the first eight months of this year totalled only \$30,000m, against a target of 2m for the year. Domestic steelmakers reduced output because of rising stockpiles. *Reuters, Beijing*

## US persistence pays off at trade talks

By Nancy Dunne in Washington

After a 20-hour negotiating marathon, US trade officials were too weary to celebrate their success in reaching "significant trade agreements" with Japan in the areas of telecommunications, medical technology, insurance and flat glass.

"You wouldn't want me to fall under the table right before your eyes," said a hoarse Mr Mickey Kantor, the US trade representative, as he prepared to go home.

But first he pulled a dog-eared sheet of paper from his shirt pocket and read his "instructions" from his deputy, Ms Charlene Barshefsky.

"Three things we are going to get," he read. "Annual progress in [exports] value and [market] share. Significant increase in access and sales, using recent trends to evaluate the extent of the process made."

This was the formula agreed for the results-oriented trade pact the US has been demanding for the past 15 months. For

months Japanese officials called it "managed trade" and skillfully organised worldwide sentiment against it. The Europeans, whom Mr Kantor had hoped to count as allies, stood aside. In the end, the deals contained no "numerical targets" or fixed market shares. In fact, Ms Barshefsky said, US government and industry wanted no more than rising "trend lines". They did not want specific targets setting ceilings on foreign market share as in the case of semiconductors.

The successful Japanese public relations offensive emboldened the bureaucracy and delayed agreement, said one former US official. But fears of unrest on the currency markets, the return to power of old-line Japanese officials and concern about damage to the overall US-Japan alliance ultimately prevailed.

The US got by no means everything it wanted, but the gains were solid enough to cede to Japan a victory of sorts on vehicles. Efforts to get commitments from Japan's private sector for increased purchases of car parts were set aside. Mr

Kantor, however, will bring a trade action against Japan's regulatory barriers to sales of foreign car replacement parts.

The action will come under Section 301 of US trade law, rather than the much-loathed "Super 301", which "may have been the wrong signal at the wrong time," said Mr Kantor. There is little difference between the provisions - both require a year of negotiations to end specified trade barriers, with the threat of threaten sanctions if all else fails - but a simple 301 is considered less offensive.

According to US officials, the final throes of the talks were gruelling, repetitious and marked by some embarrassing incidents of recriminations by a senior Japanese official towards his juniors. Although it was held in Washington, the dozen US negotiators involved were greatly outnumbered by the Japanese delegation. Eighty were lodged at the Willard hotel alone.

The achievement should go a long way towards boosting Mr Kantor, who has lately been criticised for moving too

slowly to get the Uruguay Round pact through Congress.

"Kantor has proven once again to be the guy who gets results," said Mr Clyde Prestowitz, one of the administration's outside advisers on Japan. "I don't know how much this will effect the trade deficit but it will make a significant difference for companies in these sectors."

Mr Kantor sought to gain some credit for President Bill Clinton, who he said had been "clear, precise and unwavering" in his instructions. Then he talked of the "enormous common agenda" shared by the US and Japan - implementation of the Uruguay Round, moving the Asian Pacific regional trade group toward more open trade, political and strategic issues.

"It involves co-operating together to create global growth to raise standards of living, not only in our own countries but around the world." This package of five trade deals takes both countries "a giant step" toward those goals, he said. *Editorial Comment, Page 19*



US trade representative Mickey Kantor announces the trade agreements with Japan over the weekend

## IMPASSE ON CAR DEALS RANKLES IN US

The failure to reach an accord on further opening Japanese markets to US vehicles and parts soured what was otherwise a highly positive response by US companies to the outcome of the talks, Richard Waters writes from New York.

For the US's second-biggest motor manufacturer, said that failure in such a significant area of trade "raises questions about Japan's seriousness" in opening its markets. It added that it would press the administration to monitor how

Japanese companies operate in future in both the Japanese and US car markets, and called for a presidential commission to "recommend further action". Like other US manufacturers, Ford claims that some structural aspects of the Japanese car market act as hidden barriers to imports.

For instance, the fact that Japanese manufacturers have financial stakes in many dealers makes it difficult for foreign manufacturers to find dealers to take on their products, Ford said.

## JAPANESE TAKE PACTS IN THEIR STRIDE

Japan's business community had resigned itself to some market opening agreement before the partial accord covering US-Japanese trade issues was announced, Michio Nakamoto writes from Tokyo. Even the car industry, which could be adversely affected by the US decision to initiate a Section 301 investigation of the replacement parts industry, took the latest US verdict in its stride.

"Once the business environment improves it will be possible to prove that the Japanese

market is not closed," one industry official commented.

In the glass industry there was relief that the talks did not result in sanctions, as well as a general sense that their claims about the openness of the market had been vindicated.

The main concern for Japanese business has not been so much the impact of likely sanctions, which has never been considered significant, as the adverse effect another rupture with the US could have on currency rates.

## Where the agreements came

Nancy Dunne on the US-Japan pacts reached at the weekend

The US and Japan struck a series of market-opening trade agreements at the weekend, averting a threatened trade war between the world's two largest economies. The US administration, which had been pressing Japan to open key markets, hailed the accords - covering telecommunications, medical equipment, insurance and glass - as landmark deals to result in billions of dollars of new sales of US goods and services. Agreement was reached in the following sectors:

**Medical equipment**  
For the \$3.5bn-a-year medical equipment government procurement market, the pact provides for the use of open and transparent procedures and decisions based on "overall greatest value" of bids. This means highly sophisticated medical technology made by foreign companies will not be automatically excluded because of their initial price. Japanese hospitals will have

to publish annual information on the top 10 medical technology products it plans to buy that year. The pact also has a comprehensive complaint mechanism for dealing with "unfair" bids.

## Vehicles and parts

The US sets aside many of its demands and brings a unilateral trade action against the regulatory regime for car replacement parts. This will become lucrative as foreign sales gain market share in Japan. The licensing process blocking imports is "so obvious and pernicious that it cries out for relief", Mr Kantor said.

## Insurance

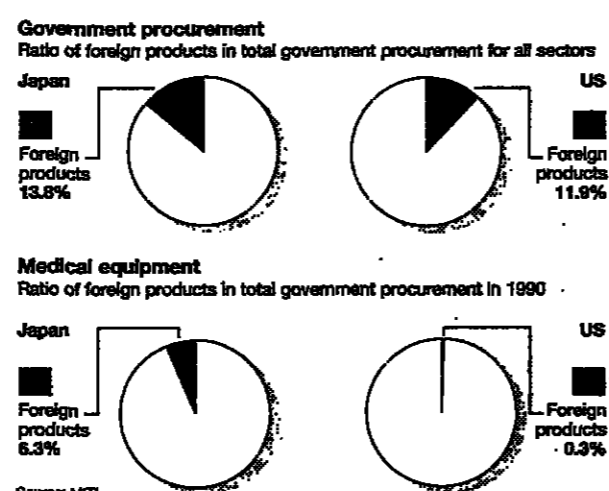
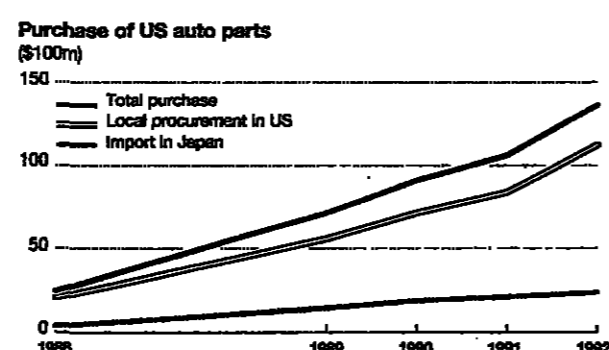
Japan promises more transparency in its regulatory system, import procedural protection, specific liberalisation measures and strengthening of anti-trust policy. It also agreed to introduce the broker system to diversify and promote competition.

Japan has the world's second largest insurance market, with approximately \$320bn in premium income annually. Foreign companies take only a 3 per cent share of this. The government agreed to implement a three-stage deregulation plan to expand sales opportunities for foreign companies.

## Flat glass

A \$4.5bn-a-year market, dominated by three big producers with separate, tightly controlled distribution arrangements. Japan's glass window market is the second largest in the world, and the US has less than 1 per cent of it - compared with global shares exceeding 25 per cent in Europe and Latin America. US and Japan have agreed to "a set of principles" and will seek to flesh out the agreement in the next 30 days. Failing that, the US will then bring a unilateral trade action against Japan's flat glass market.

## US-Japan: trade differences



Source: MITI

## Gatt ruling on vehicle taxes goes against EU

By Frances Williams in Geneva and Nancy Dunne in Washington

A dispute settlement panel of the General Agreement on Tariffs and Trade has ruled in favour of the US on most of the EU complaints brought against US laws regulating vehicle fuel economy and luxury taxes.

The decision is also a setback for US opponents of the new Uruguay Round deal, who have argued that the "faceless bureaucrats" in Geneva will force the US to change environmental and consumer laws.

The panel ruled in the EU's favour on one issue - that accounting rules, established under the US Corporate Average Fuel Economy law (Cafe), were inconsistent with Gatt.

Mr Mickey Kantor, the US trade

representative, said he would not ask Congress to change the rules, but they "do not have any actual economic impact on US auto manufacturers and therefore no trade damage results". In a written statement, US officials said Gatt had found for the first time that conservation measures "could excuse a country's law that was otherwise

representative, said he would not ask Congress to change the rules, but they "do not have any actual economic impact on US auto manufacturers and therefore no trade damage results". In a written statement, US officials said Gatt had found for the first time that conservation measures "could excuse a country's law that was otherwise

Europe, or selling them at prices below those in their home markets. The commission argues there will be no "dramatic" increase in prices from the duties, which range from as little as 3.1 per cent to 29.8 per cent.

The investigation was triggered by complaints from six European producers: Thomson of France, Dutch electronics group Philips, Grundig, and Nokia of Germany, Bang & Olufsen of Denmark, and Italy's Seico. Its findings showed the market share of the five countries under investigation had increased from 9.9 per cent in 1989 to 19.6 per cent in 1992. Over the same period, in spite of the fact that the market was growing, the EU industry's share had dropped from 36 to 28 per cent.

Brussels had said the total revenue of the three taxes levied in 1991 was \$558m, of which \$494m fell on European cars. European manufacturers paid 100 per cent of penalties under the Cafe law, 80 per cent of the "gas-guzzler" tax, and 80 per cent of the

luxury tax. European cars had just 4 per cent of the US car market. The EU argued that Cafe payments in discriminated against European luxury car makers, as they were based on the sales-weighted average fuel consumption of all models produced. Thus US producers who make cars in a range of sizes, and Japanese makers of mostly small, fuel-efficient cars, do not incur penalties.

The Cafe limits for company cars set an average fleet standard of 27.5 miles per gallon (8.8 litres per 100km) and vehicles with a worse mileage are taxed. The "gas-guzzler" tax penalises other passenger cars that achieve less than 22.5 mpg. Friends of the Earth in Washington, an environmental group, says the Cafe law has led to savings of over 2.5m barrels of oil a day.

## US and UK show best drugs markets growth

By Daniel Green

The UK and US have consolidated their positions as the fastest-growing pharmaceutical markets among large developed countries during the first seven months of 1994, according to figures published today by IMS International, the specialist market research company.

The huge North American market grew by 7 per cent to \$29.9bn in prescription drug sales compared with the first seven months of 1993. This compares with average growth of 5 per cent for the whole of last year, suggesting that efforts by insurers and employers to cut their healthcare bills were having little effect on the drugs side.

The second biggest market is Japan, which imposed widespread price cuts in April this year. Sales to July grew just 1 per cent to \$12.2bn in constant

currency terms, compared with an average 5 per cent growth during 1993.

In the UK, one of the smaller markets, sales grew 8 per cent to \$3.1bn, a small fall from 1993's average of 11 per cent, possibly as a result of price cuts imposed by the government at the end of last year.

France, which has for many years had low drug prices but high per capita consumption, saw an above-average rise in sales in July. Sales for the first seven months grew 1 per cent to \$6bn, compared with zero growth in the six months to June. This was nevertheless a sharp fall on 1993's average of 6 per cent growth, reflecting France's determination to maintain low prices in the face of its high consumption rates.

Italy, which reformed its health policies at the start of the year, is now the only country in the top eight not to show at some growth, the IMS report

said. Italy's drugs bill fell 2 per cent in 1993 and 7 per cent in the seven months to July. The increased decline was the result of government reforms in January this year which cut subsidies on many drugs.

Germany's drugs budget reforms were enacted in 1993, leading to a fall of 9 per cent in sales in that year. The first seven months of 1994 showed a 6 per cent rise, perhaps because doctors and patients were learning to exploit the loophole that hospital drugs were exempt from last year's controls.

By therapeutic area, central nervous system drugs, including anti-depressants, extended their lead as the most popular category in the US. This may be because of continuing publicity surrounding Eli Lilly's best-selling drug, the anti-depressant Prozac, which has been more popular than expected this year.

## Israel expects boom in investment as ban ends

By David Horowitz in Jerusalem

Israel is expecting a rise in foreign investment following this weekend's announcement by Saudi Arabia and the other five members of the Gulf Co-operation Council that they will no longer boycott companies that trade with Israel.

The GCC decision to end the so-called "secondary" and "tertiary" boycotts on international companies that trade directly and indirectly with Israel was announced after talks between the Mr Warren Christopher, US secretary of state, and GCC foreign ministers in New York. The GCC states also promised to support any move in the Arab League to cancel the continuing direct boycott of trade with Israel by the Arab world.

Israel's finance minister, Mr Avraham Shochat, predicted a significant boost for the Israeli

economy, with multinational companies reassessing their positions. Some analysts claimed that national economy could expect a 1 to 2 per cent boost in annual growth. Others calculated that the cumulative damage to the Israeli economy of the Arab boycott over the decades amounted to between \$20bn and \$40bn.

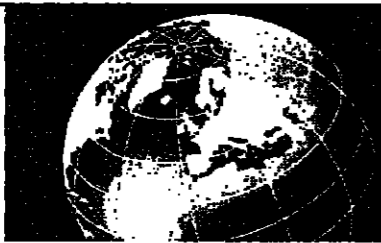
The GCC decision was immediately attacked by the Syrian, Lebanese, Iranian and Libyan governments, with Syria's foreign minister, Mr Farouq al-Shara, arguing that the move was "not timely". The boycott is administered from offices in Damascus. The Syrian criticism undermined the political significance of the move. Mr Christopher had been trying for months to win Syrian backing for an end to the boycott, saying this would create a more positive atmosphere in Israel, enabling Mr Yitzhak Rabin, prime min-

ister, to win more support among the Israeli electorate for peace moves with Syrian involving territorial compromise on the Golan Heights.

The Israeli media highlighted GCC commitments soon to allow direct mail to and from Israel, the entry of tourists and businessmen with Israeli stamps in their passports, and the use of their airspace by foreign aircraft flying to and from Israel. Tunisia yesterday took the first step towards normalising relations with Israel by opening an interest section in Tel Aviv and allowing Israel to open a similar office in Tunis. Initially, the representation will be handled by Belgian diplomats. But Mr Peres and his Tunisian counterpart, Mr Habib Ben-Yahia, agreed at a meeting in New York that Israel and Tunisian diplomats would be appointed within a few months.

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# Ministers to probe savings and investment

By Peter Norman, Economics Editor, in Madrid



Finance ministers of the world's big industrial countries decided yesterday to investigate the outlook for world savings and investment, in the hope that this might shed light on current, high, real long-term interest rates.

The Group of Ten countries adopted a proposal by Mr Kenneth Clarke, the UK chancellor, to launch such a study. Mr Theo Waigel, German finance minister, said that the European Union's council of economics and finance ministers (Ecofin) would also investigate how different tax regimes affected savings and capital investment in the course of Germany's current six-month presidency of the EU.

The linked questions of high long-term interest rates and savings and investment were raised in Saturday's meeting of finance ministers and central bank governors from the Group of Seven countries (the

US, Japan, Germany, France, Britain, Italy and Canada). The debate was taken further in a meeting yesterday of the G10 (the G7 plus Belgium, the Netherlands, Sweden and Switzerland and so 11 countries in fact) and the policy-making interim committee of the

International Monetary Fund. Mr Clarke told the committee that savings and investments were running perhaps two to four percentage points lower than in the 1960s and early 1970s, when they both accounted for about a quarter of world gross domestic prod-

uct. Also, real interest rates were at historically high levels, up by one to two percentage points against the average for most of the period since 1945. The chancellor said the industrialised countries needed a consensus on what to do, because very large new invest-

ment opportunities, in prospect in Asia and Latin America, would increase claims on savings. More such claims might soon emerge in former communist countries and South Africa.

Mr Clarke said steps must be taken to reduce the financial demands of governments on markets by reducing fiscal deficits.

This theme was taken up vigorously by Mr Waigel. The German minister pointed out that total government debt, in the industrialised countries of the Organisation for Economic Co-operation and Development (OECD), now averaged 70 per cent of GDP and was 25 per cent of GDP more than at the start of the 1980s.

Mr Waigel said a determined medium-term consolidation of industrial country budgets was the "central pre-requisite" for reducing global imbalances between savings and investment and hence reducing high real interest rates. He said Germany was showing the way and would probably bring its annual deficit/GDP ratio below 3 per cent this year and thus sooner than expected.

Yesterday, Mr Clarke underlined that free international capital flows and the global capital market were a boon to the world economy. He rejected the idea of re-imposing capital controls or re-creating formal exchange rate links between leading currencies.

UK officials said the G10 study would be taken forward by the ministers' deputies and would also involve the IMF and the Basle-based Bank for International Settlements. They hoped for an interim report by the IMF meeting in Washington next spring.

At the G7 meeting on Saturday, ministers decided to involve the central bank governors more closely in their discussions, so as to increase the governors' understanding of the impact of financial markets on their economies.

Commenting on long-term interest rates after the G7 meeting, Mr Eddie George, Bank of England governor, said he and many of his colleagues thought that bond markets were exaggerating the dangers of inflation. Observer, Page 18; Economic Notebook, Page 25



Bundesbank head Hans Tietmeyer and minister Theo Waigel pause for the football scores

## Latin America 'in need of institutional reform'

By John Gapper in Madrid

Reform of financial institutions, and encouragement of private savings in Latin American countries, is needed to reduce the volatility of capital flows into and out of the region, a group of leading bankers said yesterday.

The Group of 30, a Washington-based group of executive of banks and investment banks, said that capital flows into Latin American countries were more volatile than those related to the bank loans they had largely replaced.

The group said the rise in US short-term interest rates this year had sown this volatility in debt instruments with \$10.5bn (£6.6bn) in new bond issues during the first nine months of this year, compared with \$2.3bn in 1993.

The study also found that foreign portfolio investment in Latin America has substituted for domestic savings.

The group recommended these reforms in Latin America, to reduce the degree of substitution, making local capital markets more liquid and better able to withstand fluctuations in external flows.

Central banks should be independent and should pursue domestic price stability. The study says such stability - towards which considerable progress has been made - underpins the growth of mature local capital markets.

There should be reform in the financial sector, including higher accounting and disclosure standards. Countries should try to develop pension, insurance and mutual funds, and develop longer-maturity bonds and derivatives. The

study called for Latin American banks' capital requirements to be higher than the minimum laid down in the 1988 Basle accord, because of the relatively high risk of their loan portfolios.

Domestic loans and investment rates should be raised from current low levels. Private sector incentives such as changes in taxation and requirements to invest in pension funds should be considered.

Industrial countries should continue to support economic reform by ensuring access to their markets by Latin American goods and services, and by ratifying the Uruguay round of global trade liberalisation.

*Latin American capital flows: Living with Volatility; Group of 30, 1990 M Street NW, Washington DC 20036, USA; \$20.*

## Infrastructure attracts more private finance

By Nancy Dunne in Washington

Private financiers are moving into infrastructure development, in volumes well above expectations of just a few years ago, despite the risks of investing in emerging economies. This is according to a report released by the International Finance Corporation, the World Bank's private sector arm.

The IFC is playing a leading role in managing private sector infrastructure development. Since its first infrastructure financing in 1966, the corporation has undertaken 88 infrastructure transactions worth \$15bn (£9.5bn) in 20 countries.

The "renaissance" in private sector financing can be traced to several developments. In many countries, both the gov-

ernments and consumers are disappointed by the poor performance of public projects. Other governments, with tight budgets, are turning to their private sectors.

Developments in financial markets have created a wider pool of financiers and more financing techniques. Technological changes in telecommunications, power and transport systems have reduced unit costs and eased private sector entry.

In 1988-1992, governments in 15 developing countries privatised more than \$20bn of infrastructure-related assets.

"Companies have supplied finance, and the ability to take risks and to implement projects efficiently, while governments have contributed a willingness to privatise, to experiment with new more competitive regulatory envi-

ronments, and to encourage non-guaranteed financing," the report says.

The rise in private financing and management of power plants, roads and other infrastructure can ultimately deliver better results than projects managed by governments, the report said, noting that, while it is still too early to judge operational performance, signed contracts suggest that efficiency gains are being achieved.

The IFC says companies are also learning to manage environmental risks. Project managers are bringing in foreign companies to apply the lessons of environmental management learned in their own countries. "Private ownership that encourages better cost recovery is also having an impact on energy conservation by customers," it said.

### MADRID CONFERENCES DIGEST

## Surprise Russian move on debts

Russia surprised and shocked the G7 countries at the weekend by appearing to demand sweeping readjustment of its foreign debt position. Officials said Mr Alexander Shokhin, Russian deputy prime minister, asked for treatment of Russia's debt that would be equivalent to the 1950s London agreement settling Germany's debt burdens after the second world war.

Although details were not clear, Mr Shokhin reportedly sought an answer within seven days. Mr Kenneth Clarke, UK chancellor, said afterwards the G7 had not been able to make a considered response to the Russian demands. Instead, G7 finance ministers had asked Mr Shokhin to put his proposals on paper. Resolving Russia's debt problems would need much more detailed work by the Paris Club of western creditor nations, he said. Peter Norman

### Japanese to head institute

Mr Toyoo Gyohten, chairman of the Bank of Tokyo, yesterday became the first Japanese to head a major global finance body when he was elected chairman of the Institute of International Finance (IIF), the Washington-based association of over 130 institutions, including all leading commercial banks. A former vice-minister of finance, Mr Gyohten said it was important for the IIF to act as a policy forum which would analyse issues concerning emerging markets. He was elected in succession to Mr Antonione Jeancourt-Galignani, former chairman of Banque Indosuez, at the IIF annual meeting in Madrid, held in advance of today's formal gathering of the IMF and World Bank. Tom Burns

### SA 'relaxed' on credit rating

Mr Chris Liebenberg, South Africa's finance minister, told international bankers yesterday he was "relaxed" about the forthcoming rating of the republic's creditworthiness by the US investor service agencies Moody's and Standard and Poors and by Nippon of Japan. "On fundamentals we should be an A but I understand there should be uncertainties until we have proven that we can deliver our policies," he said. "If we come out with a BB I'll be relaxed. Any rating is better than having none at all as we had before," said Mr Liebenberg, who succeeded Mr Derek Keys as finance minister two weeks ago. Tom Burns

### Complaint filed on Nepal dam

A first complaint has been filed to the World Bank's newly established panel set up to investigate complaints from people adversely affected by Bank projects. A group of non-government organisations from Nepal has charged that the Arun III hydroelectric dam project is in violation of the Bank's policies and procedures. They said the high cost of the project could result in cuts in health and social services programmes, while construction of a 122km road to the dam site would have adverse environmental effects. Peter Norman

### Loan planned for Algeria

The World Bank is preparing a loan of between \$100m and \$200m for Algeria to help it with an ambitious structural reform programme. Mr Caio Koch-Weser, World Bank president for the Middle East and North Africa, said he hoped to put the proposed "emergency rehabilitation loan" before the Bank board before the end of this year. In addition, the Bank was providing an emergency \$50m loan in the wake of an earthquake disaster. Peter Norman



Maria Kaffa, Controller of Organon and Organon Teknika, Greece:

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CREATING THE RIGHT CHEMISTRY

AKZO NOBEL

## NEWS: INTERNATIONAL

## Comeback kid shows no fight

Jurek Martin examines a battered President Bill Clinton

Franklin Roosevelt created it, Ronald Reagan perfected it and it is now on every US president's Saturday morning schedule.

It is a short radio report to the nation, from the White House or wherever the president is, lasting no more than about five minutes. An hour later, a representative of the opposition party of the day gets equal time to respond.

There was more reason than usual to tune in to President Bill Clinton's talk last Saturday. Last week, the Republican party's "scorched earth" policy eviscerated in Congress what had remained of his domestic legislative agenda.

On Friday afternoon, campaign finance reform had gone the way of healthcare reform. Approval of the Gatt trade treaty was put on hold - by a Democrat at that, Senator Ernest Hollings of South Carolina. Bills covering cleansing of contamination by toxic waste, western land preservation, housing, and telecommunications were all dead or dying.

Even popular proposals, such as reform of lobbying and education, needed respirators.

As the week ended, Democrats, like Senator George Mitchell, the majority leader in the Senate, were openly apologetic about Republican obstructionism. The opposi-

tion, the senator charged, was determined to bring Congress further into disrepute "so they can inherit the rubble".

Yet, on Saturday morning, the Democratic president did not even allow the word "Republican" to pass his lips. He did try to parade his achievements, and bemoaned what had been lost, but the culprits were always unnamed "lobbyists" or Senate "filibusters", which, as every Congress-watcher knows full well, have virtually all been orchestrated by the Republican party.

Almost as an indication of Republican contempt for the president, the party's response, by Senator Judd Gregg of New Hampshire, hardly referred to Mr Clinton's remarks. Instead, it assaulted his policies on Haiti, which the president had not even mentioned.

Mr Clinton's reluctance to come out fighting may reflect immediate political concerns, not least the fate this week of the bills to reform lobbying and education. However, by that token, he might even be persuaded to hold back until the end of November to consider the Gatt agreement - and that will not be until after the mid-term congressional elections on November 8.

Survey after survey of US opinion shows the elections as

likely to be potentially disastrous for Mr Clinton and the Democrats, who now represent the political establishment in the widely loathed capital.

Both the New York Times and the Washington Post yesterday carried extensive analyses, pointing to the likelihood of Republican control of the Senate, possibly of the House of Representatives and even of most state governorships.

Some Democrats in rock-solid seats are now fighting for their lives, including Senator Edward Kennedy in Massachusetts. Many have chosen to respond by shifting themselves to the maximum distance from their president. A mid-western fundraising trip by Mr Clinton a week ago was poorly attended and its financial gain was disappointing.

In fairness, the electoral season will not really begin until Congress adjourns, probably at the end of this week. Incumbents have been kept in Washington by the heavy congressional schedule, though some, like Mr Tom Foley, Speaker of the House, were forced back home at the weekend by polls indicating the depth of their difficulties.

But, even if the public perception is that Mr Clinton is a drag on Democratic candidates, a deferential silence

from him in the five weeks before November 8 might be yet more devastating. It would risk leaving the impression that he is prepared to face two more years of Washington "gridlock", which is the certain result of large Republican gains.

As R. W. Apple noted in the New York Times yesterday, this impasse with Capitol Hill could be turned to the president's advantage in 1996, as it was in 1948 when President Harry Truman ran for re-election in the last months of the "do nothing" Republican Congress returned two years before. But a more common view among Democrats, especially those up for re-election now, is that it would be folly to let the Republicans "get away with it" now.

Mr Clinton, self-styled "comeback kid" of the 1992 race, can still be a formidable campaigner when his heart is in it. But, on Saturday, in front of a clear target and a ready-made forum, there was no hint of fighting spirit.

His wife, Hillary, who also has much to lament with the loss of healthcare reform, was at least back in political harness campaigning for her brother, Hugh Rodham, a Senate candidate in Florida. But the nation still waits on its president.



Haiti military chief Gen Cédras leaves a weekend meeting

About 300 soldiers from seven Caribbean countries will be deployed in Haiti today - the first non-US troops to arrive since the military intervention began a fortnight ago, reports Canute James, in Kingston, and agencies.

The new troops, part of a multinational force which is to assist imposing order in Haiti, have been training in Puerto Rico for three weeks.

They will be assigned to the docks in Port-au-Prince, Haiti's capital, relieving US personnel. The port area has been the scene of bloody clashes

between factions supporting the Haitian military and those backing the exiled President Jean-Bertrand Aristide.

The Caribbean troops will operate autonomously. Their deployment follows visits to Haiti last week by army chiefs from countries in the region. They concluded that the situation in Haiti is stable enough for the Caribbean detachments to go in.

Meanwhile, US troops are to stop violence between Haitians when they safely can, but a senior US official said yesterday that this did not mark a broadening of US policy.

## Cuba opens new markets for sales by farmers

By Pascal Fletcher in Havana

"Pardon our inexperience. Tomorrow, we will do it better". The sign in one Havana marketplace summed up the first day of Cuba's latest economic reform experiment.

Nearly 150 farm markets, a novelty in the state-controlled economy, opened their doors in the Caribbean island at the weekend as state farms and co-operatives, including military units, began to sell surplus meat, fruit and vegetables directly to the public.

But small peasant farmers were conspicuous by their absence, a sign that they may be initially wary about whether the move will really benefit them.

Shoppers gathered early at the 15 markets opened in Havana, but the avalanche of demand predicted by many observers did not immediately materialise.

Farms operated by the armed forces appeared to be setting the pace at the new markets, in terms of both prices and produce offered. Cuba's armed forces, battle-hardened in overseas wars in Angola and Ethiopia, are now

being increasingly used to combat the island's internal economic crisis. They have been helping to grow food for the population since last year.

Mr Manuel Vila Sosa, internal trade minister, had promised that the farm markets would operate on a free market basis. Producers, after fulfilling contracted quotas to supply the state, could set their own prices for the general public, reflecting supply and demand. Sales income would be taxed.

Undercutting and eliminating the black market in Cuba is a main objective of the new farm markets. Food shortages are one of the most sensitive symptoms of the four-year economic recession gripping the country.

The crisis followed the collapse of Cuba's preferential trade ties with what used to be the Soviet bloc, an economic belly-blow worsened by the recent tightening by the US of its trade embargo on Cuba.

The government, which for years has paid rock-bottom prices to farmers, is hoping the price incentives offered by the new markets will help to reverse the current fall in food production.

## INTERNATIONAL PRESS REVIEW

## Candidate with a Real chance of being elected

LATIN AMERICA

The presidential election today in Brazil and the likely victory of Mr Fernando Henrique Cardoso, a sociology professor turned inflation-conquering finance minister, are prompting optimism throughout Latin America about prospects for growth, if the region's biggest economy remains stable.

But for thousands of Brazilian twins, the issue is more straightforward: will they get the vote? The twins were disenfranchised when election authorities, noting that such details as dates of birth and parents' names were identical, suspected they were fraudulent attempts to create votes for "non-existent" people, a common practice in parts of Brazil.

Last-minute appeals by desperate siblings appear to have persuaded the authorities to let the twins vote. But as SBT, Brazil's second TV station, reported on Saturday night, the change of policy has not yet been officially sent to the provinces.

Boris Kasoy, the station's anchor, whose catch phrase "it's a disgrace" is used nightly to criticise the government, described the episode as plain "stupid".

Despite such late hitches, campaigning has been peaceful and debate, at times, serious. The main newspapers agreed that Brazil's democracy has matured since the vicious 1989 presidential campaign won by Mr Fernando Collor, who later resigned amid corruption charges.

"In 1989 polarisation, radicalism and passions predominated. In 1994 we have reached polling day with less turbulence," according to an editorial in *Folha de São Paulo*, Brazil's biggest selling daily.

The media, which have supported Mr Cardoso throughout the campaign, also agreed that his expected victory showed the country wanted stability rather than change. As finance minister, he planned the country's new currency, the Real, which led to a fall in monthly inflation from 50 per cent to less than 2 per cent.

Voters seem attracted by that record of success rather than by the rhetoric of Mr Luiz Inácio Lula da Silva, the left-winger who promised to tackle social problems and build a "fairer" Brazil.

Ms Maria Tereza Souza Monteiro, a polling specialist interviewed by *Veja* news magazine, said: "The majority voting for [Mr Cardoso] are acting out of caution to prevent things changing unpredictably. What has struck me is that the elector, trying to be more rational, has this time refused to dream, which was always an inseparable part of our election campaigns."

Mr Cardoso is well known throughout Latin America, where his work as a left-of-centre sociologist is still studied. His victory will be welcomed by the continent because he is likely to accelerate Brazil's integration with its neighbours. For example, he is

strongly committed to Mercosur, the customs union with Argentina, Paraguay and Uruguay, which comes into force on January 1.

The weekend press in Buenos Aires was unanimous in its assessment that the inflation-battling Plan Real had wooed the Brazilian people and was certain to catapult Mr Cardoso to power. Newspapers pointed out the added importance of Brazilian elections for Argentina, given the close economic ties being forged between the two countries within the customs union.

In a piece entitled "Brazilian elections: An event viewed through a magnifying glass in Argentina", *La Nación* said it was now commonly held that "with Mercosur, everything that occurs in one country has infinite importance in the other."

It was also genuinely accepted, said *La Nación*, that Argentina was rooting for a Cardoso victory so that Brazil could be "once and for all converted to a market economy".

Mr Cardoso, it said, had borrowed heavily from Argentina's inflation policy under economy minister Domingo Cavallo. "Here, they joke that the Plan Real is the Plan Cavallo written in Portuguese [Brazil's language]!" The tabloid *Clarín* warned that winning the elections was the easy part. Mr Cardoso had to push crucial budgetary reforms through congress, it said, or "Brazil would once again become ungovernable".

In a separate article, *Clarín* contrasted the personalities of the presidential frontrunners as a symbol of Brazil's yawning social division. As a child, the academic Cardoso "adored the classics" and studied with a private tutor, while factory worker Lula "ate bread for the first time when he was seven".

Left-wing *Página 12* ran a similar piece contrasting the lives of the bronzed jamaican beach set with life in a Rio slum, Rocinha. It found much support for the Plan Real in both. "The inhabitants of the biggest shanty town in Latin America were also seduced by the new money." In this, it said, lay the secret of Mr Cardoso's likely success.

In Chile, where Mr Cardoso lived for a spell during Brazil's 1964-1985 period of military rule, *El Mercurio*, the country's leading daily, reported Mr Cardoso's increasing lead in opinion polls while the main TV channels concentrated on the pre-election atmosphere.

*La Epoca* newspaper went into greater detail and pointed out that the two main candidates, Mr Cardoso and Mr da Silva, had the backing of organised political parties. As such, they differed from "outsider" politicians such as Mr Alberto Fujimori, who was elected president of Peru in 1990, or Brazil's Mr Collor, who won the presidency in the previous year without the help of the main political parties.

Angus Foster in São Paulo, David Pilling in Buenos Aires, and Imogen Stark in Santiago

## Maintaining

## a Strong

## Performance

STABILITY

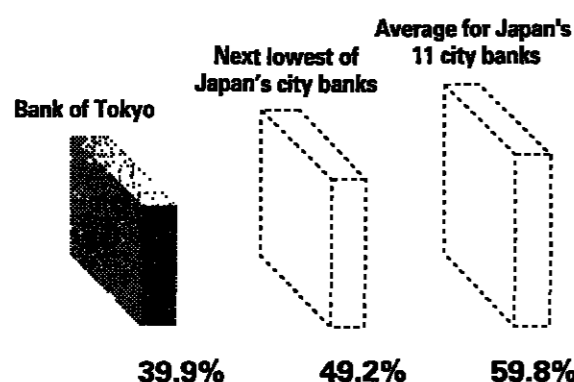
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AFFIDABILITY

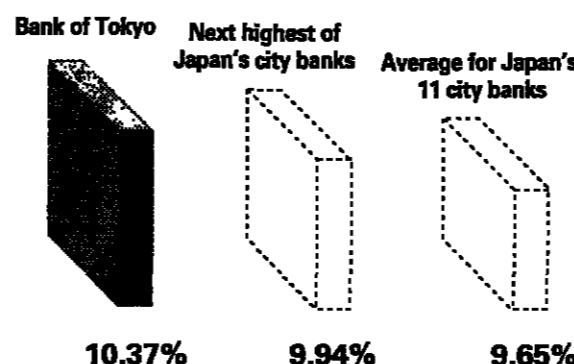
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## Key Areas

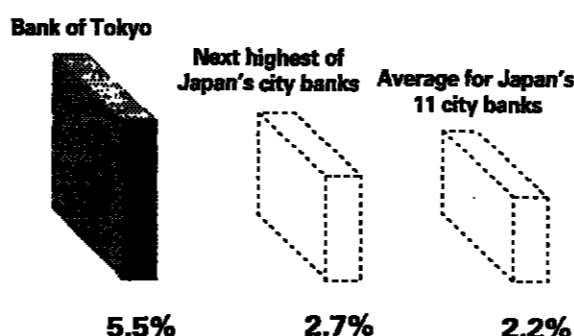
All figures are for the fiscal year ended March 31, 1994.

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(nonconsolidated basis)

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BIS Capital Adequacy Ratio  
(consolidated basis)

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(nonconsolidated basis)

The Bank of Tokyo's profitability, as measured by return on equity, is substantially higher than its nearest competitor.

## Financial Highlights

The Bank of Tokyo, Ltd. and Subsidiaries

	Millions of Yen		Percent Change	Thousands of US Dollars
	1994	1993	1994/1993	1994
For the Year Ended March 31:				
Net Interest Income	¥ 303,776	¥ 315,359	(3.7)%	\$ 2,944,997
Income before Income Taxes, Minority Interest, Amortization of Goodwill and Equity	98,627	79,633	23.9	956,160
Net Income	50,629	37,946	33.8	490,831
As of March 31:				
Total Assets	¥28,045,753	¥29,067,346	(3.5)%	\$271,892,906
Loans and Bills Discounted	13,554,332	14,317,494	(5.3)	131,404,091
Securities	3,957,376	3,994,056	(0.9)	38,365,258
Deposits	13,061,808	13,833,195	(5.6)	126,532,316
Debt Securities	5,043,199	5,204,470	(3.1)	48,891,899
Total Shareholders' Equity	1,048,389	1,007,889	4.0	10,163,736

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# Blair launches 'crusade for change'

By Kevin Brown and Philip Stephens in Blackpool

Tension over Labour's tax plans for the middle classes yesterday undermined Mr Tony Blair's efforts to secure a trouble-free conference debut as opposition party leader.

As party officials cleared the way for compromises on minimum wages, women's rights and Northern Ireland, Mr Blair sought to set the tone for the conference in a statement promising a "crusade for change."

His comments came as Mr Gordon Brown, the opposition

chancellor, outlined a comprehensive series of measures being considered as part of Labour's industrial regeneration plan.

Mr Brown will also use the opening of today's debate on the economy to underline the party leadership's commitment to modernise the welfare state.

He will signal Labour's plans to integrate the tax and benefit system for pensioners and to use the benefit system to remove work disincentives for the unemployed.

In a series of interviews, Mr Brown played down remarks by Mr John Prescott, the dep-

uty leader, which appeared to signal support for higher taxes for the better off.

He said Mr Prescott's view was in line with Mr Blair, who pledged in his statement that "people who generate ideas, jobs and wealth have nothing to fear from a Labour government."

However, Mr Prescott said on an independent television programme that Labour had given no promises to any groups of voters on taxation.

"What is considered super rich or middle income or low income is a matter of the tax bands. We will make no decision about that until the appro-

priate time," he said.

Mr Blair's efforts to modernise the party were repeatedly attacked at pre-conference fringe meetings by leftwing activists accusing him of seeking to compete with the Conservatives in running a market economy.

However, the leadership was more embarrassed by disclosures that delegates representing many big unions will be told how to vote by union leaders, undermining the abolition of the union block vote at last year's conference.

Senior party officials were confident that a threatened

row over the party's commitment to a minimum wage had been defused by a compromise resolution referring the issue to a commission due to report next year.

The resolution confirms Labour's existing commitment to a legally enforceable national minimum wage pegged to half the level of male median earnings, but meets Mr Blair's concern that the party should avoid specifying a figure.

The ruling national executive committee sought to lay the groundwork for a trouble-free week by defusing other

potential disputes before the conference starts.

The NEC said that rules on all-women shortlists for parliamentary seats would be enforced with "flexibility," and announced a shift of emphasis on Northern Ireland towards neutrality between the nationalist and unionist traditions.

Senior officials said the leadership was determined to leave behind the debate between modernisers and traditionalists which has characterised the last two years. To reinforce the point, the conference backdrop proclaims a fresh slogan: New Labour, New Britain.

## Britain in brief



## Sinn Fein leader in Washington

Mr Gerry Adams, president of Sinn Fein, the IRA's political wing, is due to arrive in Washington from Philadelphia today, but with the prospect of only limited access to US administration officials.

He is likely to meet Ms Nancy Soderberg, of the national security council staff, at a social event tonight, according to the White House and British embassy. It was not clear if he would meet Mr Anthony Lake, the national security adviser, at that or another function.

Ms Dee Dee Myers, White House press secretary, made it clear last week that Mr Adams would not visit the White House itself, which should rule out any "drop in" meeting, however brief, with President Bill Clinton or vice president Al Gore. He is expected to meet lower-ranking officials at the state department.

Also on Mr Adams's Washington schedule are speeches hosted by the Council on Foreign Relations and the National Press Club before he flies to California midweek. His exposure on US national media in the past week has been much more limited than to February, the occasion of his first visit.

## Coalfield boosted by power deal

National Power, the UK's largest electricity generator, has signed a contract to buy Welsh coal for 10 years in what is thought to be the UK's longest-lasting coal contract.

National Power has agreed conditionally to buy from next year 1.5m tonnes of coal a year for 10 years from Ryan Group. Ryan is one of at least seven companies to have submitted tenders for the South Wales coal region and the deal is conditional on the company winning its bid.

The move is a fillip for the industry as it enters the final stages of privatisation. The government is expected to decide this month which companies are to take over British Coal's assets later this year.

## Peat Marwick plans to float audit arm

Britain's second biggest accountancy partnership said yesterday it would publish full financial results if its clients backed a plan to incorporate its audit practice.

KPMG Peat Marwick confirmed that it is to consult with clients, investors, and regulators with a view to creating a limited company to audit its public limited company clients.

Other options, including the incorporation of the whole business, were dismissed at a board meeting last week. The firm audits one fifth of all the UK's listed companies.

If incorporation goes ahead it would be the first such venture in a leading accounting firm. Publication of results would also be a first, except for a brief attempt in 1979 by Arthur Andersen, which was not repeated.

## Investors urged to check advisers

Investors seeking independent financial advice should check that their adviser is still authorised, the new financial services industry regulator warned yesterday.

At least 13 firms have had their authorisation revoked for failing to meet the midnight Friday deadline for applications to join the Personal Investment Authority, which is replacing Fimbra as the main regulator for independent financial advisers.

## Shell turns the tide on its sea of paper

Shell UK will today move to save motorists from drowning in a sea of paper every time they buy fuel by announcing a scheme to replace trading stamps and tokens with "smart cards".

Shell Smart will be the first nationwide scheme to use such cards and it hopes to distribute up to 3.5m throughout the UK.

Customers will be able to claim a point for every 25 they spend on fuel which can be exchanged for gifts, donations to charity and air miles.

## OFT to speak on underwriting fees

The Office of Fair Trading has decided to publish a controversial report on fixed underwriting commissions which leading City investment banks and institutional investors have been lobbying hard to shelve.

The report, commissioned by the OFT and conducted by Professor Paul Marsh of the London Business School, concludes that securities firms and fund managers earn excessive profits on their standing fee for underwriting equity offerings. The report says that the two per cent fixed fee is too high for the risks undertaken.

It is understood the OFT's inquiry is backed by the Treasury, which has been concerned that the cost of raising capital in London is too high and will erode the city's competitiveness.

## Double blow for Post Office sell-off

Government plans to privatise the Post Office have been dealt a double blow by Ulster Unionist MPs and Conservative constituency chairmen.

With the cabinet set shortly to decide whether to proceed with the sale of 51 per cent of the Royal Mail, the nine Ulster Unionist MPs at Westminster have sent a formal submission to Mr Michael Heseltine, the trade and industry secretary, saying they oppose the move.

A poll of Tory constituency chairmen has indicated that even these party loyalists favour keeping the Post Office in the public sector - with greater commercial freedom.

## National Grid sale faces tax setback

By Michael Smith

Regional electricity companies could be liable to a tax bill of more than £1bn from their planned flotation of the National Grid after a potential setback in talks with the Inland Revenue, the tax authority.

The authority has told them it is unable to comment on a scheme by which they hope to avoid incurring capital gains tax liability as a result of demerging the National Grid, which transmits electricity in England and Wales, from their companies.

Although the regional electricity companies (Recs) are seeking guidance from financial and legal advisers, executives fear that the Revenue's non-committal approach means they may be forced to proceed with the flotation with the tax issue unresolved. At worst it could signal the end of their plans to avoid capital gains tax.

Pressure is growing on the government to extract as large a benefit as possible for taxpayers and consumers from the National Grid flotation. It has been widely criticised for undervaluing the Recs when it privatised them four years ago.

The National Grid flotation is bound to increase the criticism as the company was valued at just over £1bn in 1990 but is now estimated to be worth at least £4bn.

Theoretically the government could use its golden share in each of the Recs to extract windfall payments after the flotation, but its free market principles means it is highly unlikely to do so. It would prefer the Recs to cut power bills voluntarily. The imposition of capital gains tax would be another way of reducing criticism.

The Inland Revenue's remarks, in a letter to the Recs, follow several months of talks.

The Recs' proposal, through which the National Grid would be demerged through an issue of shares in the transmission company to existing Rec shareholders, is the second to be made to the Inland Revenue. The first was rejected outright.

## A carrot and stick policy

By Philip Stephens

Mr Gordon Brown calls it the "New Economics". It is not new. But for the opposition Labour party the approach certainly is different.

Last week saw the shadow chancellor join Mr Tony Blair in ditching the party's traditional assumption that higher spending and taxes would solve the economy's problems. Neither man will produce detailed tax tables this far ahead of a general election. But apart from the "undeserving rich" (no one is quite sure who they are, though the bosses of the newly privatised utilities seem one obvious choice), Mr Brown's message is that the nation's taxpayers can sleep soundly.

Convinced that the break with the past has been made, Mr Brown wants to move on to a more positive agenda - explaining what Labour would do rather than what it will not. The threat running through his efforts to present a credible strategy at the next general election is the diagnosis that underinvestment is the key to the UK's economic weakness.

In an interview with the FT on the eve of today's conference debate on the economy, Mr Brown offered Labour's answer: a framework for the details of proposals to expand training, change the culture of short-termism in the City and raise the level of industrial investment must await the deliberations of party's Economic Commission.

But he outlines the main elements of what amount to a series of carrots and sticks to

the dangers of preferring today's consumption to tomorrow's investment.

Nor is there anything new about the idea that the nation's education system is no match for that of the Japanese or the Germans, or that British companies often prefer hefty dividend payments to long-term expansion programmes.

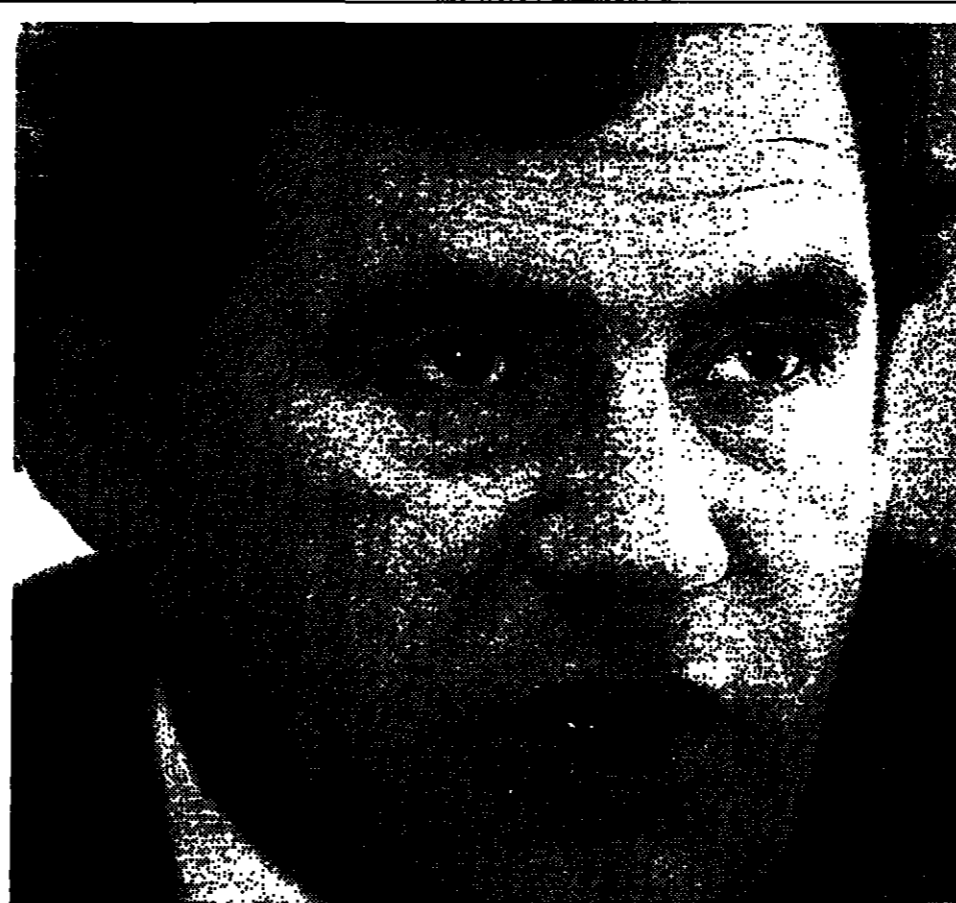
What has changed is Labour's prescription. State direction and ownership, like high spending and punitive taxes, Mr Brown insists, are no longer part of Labour's agenda.

The message he wants the voters - and business - to take came in the first sentence of the interview: "I think the key thing is for people to understand that Labour is setting aside the old conflicts between the public and private sectors."

We see a partnership that is essential to the regeneration for the economy. The Tories have failed because they have presided over an ever-shrinking productive base. For the same reason Labour could not solve the problems by pumping up demand. It would hit the same capacity constraints. The supply-side rules in Mr Brown's "New Economics".

The shadow chancellor is not offering a blueprint for the promised transformation. The details of proposals to expand training, change the culture of short-termism in the City and raise the level of industrial investment must await the deliberations of party's Economic Commission.

But he outlines the main elements of what amount to a series of carrots and sticks to



Gordon Brown: 'Labour is setting aside the old conflicts between the public and private sectors'

influence industry. "We are looking at the merits of an employer rebate/levy scheme to encourage training. We are looking at how we can reorganise industrial and regional incentives so that they have a far bigger component for investment in skills. We are looking at the idea of individual training accounts and at major reform of National Insurance in terms of the benefits people could expect for the same contributions."

There is more: a university for industry, the 1990s equivalent

of the Open University, to encourage the development of skills; and the possibility of tax incentives to encourage pension funds and companies to enter into voluntary long-term investment arrangements which would ease the pressure on the bad so there is a case for intervention."

Labour would tighten competition policy by introducing public interest criteria for mergers and takeovers. It might form a development bank to help small companies. It is easy to spot the sticks and carrots. Employers would

have to pay the training levy. Rebates would depend on their performance in improving skills. The system would "encourage people to do what they would otherwise consider doing themselves. It stops the good firms being undermined by the bad so there is a case for intervention."

Alongside this is the carrot provided by a plan to use the National Insurance system to provide individuals with training credits - credits which could be drawn while in work as well as between jobs.

## First British university abroad to open in Thailand

By John Authers

Work has begun in Thailand on the first British university to be built outside the UK. It will be staffed by British academics and award degrees validated by parent universities in the UK.

Ministers hope that the project, led by the Department of Trade and Industry's education and training group, will be the first of several British universities throughout the Pacific rim and the Middle East, following

the model of international American universities.

Baroness Perry, leader of the group which was set up a year ago in an attempt to boost UK educational exports, said the project was needed to co-ordinate exports by British universities and to reverse inroads made in the market by higher education institutions from Germany, the US and Australia.

All funding for the university is coming from Thai financiers. It will be a private insti-

tution with local people paying for tuition.

Mr Richard Needham, trade minister, said there was scope for similar initiatives elsewhere in the Pacific rim, as several nations, including Korea and Taiwan, have a shortage of university places compared with the numbers who graduate from secondary school.

The DTI group also aims to expand British higher education into Latin America, where it has so far made few inroads.

"A British degree has international currency, and Thai people will be more than willing to pay for it," said Lady Perry.

The university in Thailand aims to accept its first students in October 1996 and eventually will cater for around 10,000.

Two campus sites have been designated. One will specialise in finance and economics and the other will concentrate on engineering and technology, reflecting the current needs of the local economy.

The project hopes to win final approval from the Thai government next July once details on the appointment of administrators and lecturers have been settled.

Several British universities are already active in the Pacific rim, although this is the most ambitious project to date. For example Warwick University has separate manufacturing departments in Hong Kong and Kuala Lumpur and plans to offer accounting and finance courses from Shanghai.

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## CRACKDOWN ON CRIMINAL TRADING

## Inside out: the Stock Exchange goes on crusade

A crusade is being launched by Mr Michael Lawrence, the London Stock Exchange's chief executive, to make the market safer for investors who do not have inside information. He is taking a series of measures to ensure that anyone buying and selling shares through a London securities house will not be severely disadvantaged if he or she has access only to published information.

"The lack of certainty in the market [which makes it difficult for an investor to make a rational investment decision] damages our reputation," he said. "I want us to do all we can to ensure that the market is orderly."

Part of the way to achieve that, he believes, is for the exchange to be doubly vigilant in its attempt to detect and investigate possible insider traders, or those who make illegal profits from trading in shares when in possession of confidential price-sensitive information. But Mr Lawrence admitted: "There is a limit to what we can do. We investigate, but it's up to the Department of Trade and Industry to

decide whether to prosecute". In the 14 years since insider trading became illegal in the UK, there have been just 23 successful prosecutions and only two in the past two years. Part of the reason for this record is widely believed to lie in the criminal, as opposed to civil, nature of the misdemeanour. The burden of proving

beyond any reasonable doubt, as is required in a criminal case, that someone possessed inside information when dealing - and then proving that the motive for the transaction was to profit from that information and that there was no other motive - has frequently proved impossible. Only the government can decide

whether to introduce a new civil law, with a lower burden of proof, to cover insider trading. But although the exchange cannot change the law, it is not immune from the effects of the current one. Mr Lawrence said: "My concern is that the exchange itself is brought into disrepute if there is not enough punishment." All he can do for now is to improve the exchange's own detection and investigation procedures, so as to expose as many insider traders as possible. "We do not want to have an image of London as a place where insiders

can trade easily and get away with it," he said. To provide an insight into the exchange's role in the battle against insider trading, the articles below include a genuine insider-trading case - heavily disguised with the names and dates changed because the investigation is still "live" - and a detailed account of the operations of the exchange's Surveillance Group, responsible for detecting and investigating any criminal activity linked to share trading.

## Surveillance knights ride into battle to secure fair fight for all investors

1.1 On February 8 1994, Olde Humbug, the manufacturer of traditional English confectionery, put out a statement that it was in talks with International Chocolate Bars (ICB), the Swiss-based foods multinational, which were likely to lead to a merger of the two companies.

1.2 Following the announcement, Olde Humbug's share price jumped 40p to 370p. At the beginning of the year, the price had been 220p.

1.3 The Surveillance Group initiated a review of trading in Olde Humbug's shares as it had been seen that there were a series of large transactions ahead of the announcement.

A substantial number of trades had come from Scottish-based individuals and had taken place through an Edinburgh stockbroker, firm, McNose and Partners. These transactions, most of them purchases, seemed anomalous, since McNose had rarely in the past dealt in Olde Humbug's shares.

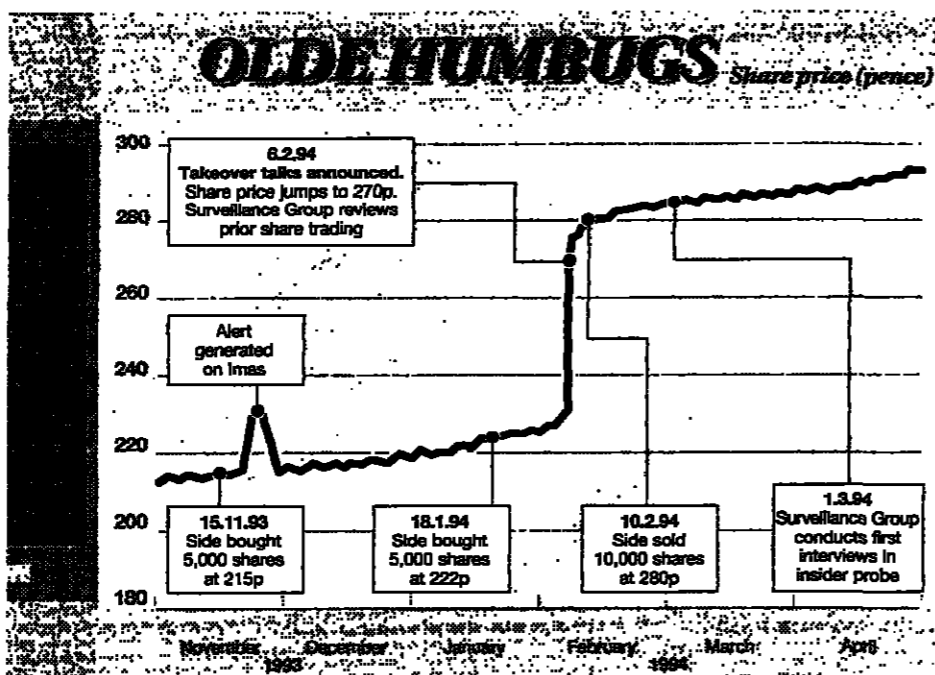
1.4 The biggest purchases, worth £10m in aggregate, were carried out by McNose for two clients, Banque Internationale de Bruxelles, a Brussels-based bank, and Mr Peter Punter, a well-known and successful private investor.

## The investigation

2.1 The department approached the Takeover Panel for information, given in strictest confidence, about how long talks had been in progress between ICB and Olde Humbug. The two companies were also asked to supply details of the events leading up to the announcement and who had been aware of the negotiations.

2.2 Both companies agreed that the first significant event took place on November 14 1993 when the chairman of the two companies, Mr Ronald Chattie (Olde Humbug) and Mr Dieter Aufgang (ICB) met to explore the issue of a possible merger.

2.3 On March 1, Chattie and Aufgang were interviewed separately at the exchange. Both were taped. During the interviews, the names of those iden-



tified at that date as having dealt prior to the merger announcement were given to them, but none was known to either. They agreed to carry out checks with their personal records and suppliers.

2.4 The department carried out a more extensive review of transactions in both companies' shares. On March 3 it established that Mr Ewan Side, an Olde Humbug executive,

had dealt in his company's shares as follows:

- November 15 1993, bought 5,000 shares at 215p;
- January 18 1994, bought 5,000 shares at 222p;
- February 10 1994, sold 10,000 shares at 280p.

2.5 Although not a member of the Olde Humbug board, he was aware of the merger talks because of his role as corporate strategist.

2.6 On March 10 two exchange investigators met Chattie and Ron Despot, his finance director, at Olde Humbug's offices in Leicester. The purpose of the meeting was to find out the nature of Side's involvement in the talks with ICB.

Chattie said Side as corporate strategist was kept closely informed of the talks with ICB

## How a real - but very heavily disguised - series of deals is being investigated

and was present at several of the negotiating meetings. He recalled that in early December he warned Side not to buy any shares. Side had not been brought outside (made an insider) in any other transaction as this was the first time the company had been in merger discussions. Chattie said he did not feel uncomfortable about discussing the business with him.

Chattie had also checked the company's records against the names of Olde Humbug's share purchasers mentioned at the original meeting in the exchange. He had found that Bernard Arrowroot of Gumme Group was a supplier to Arthur Crystal of Sugar Products which in turn was a supplier to Olde Humbug's Arrow-

root had purchased 10,000 Olde Humbug shares in January.

Chattie said that he knew that Side and Crystal were friends and had been shooting together in December.

2.6 Owing to the senior position of Side within the company and the information supplied by Chattie, it was felt necessary to interview Side at the earliest opportunity. It was therefore decided to interview him the next morning.

2.7 On March 11 at 09.05, two exchange investigators met Side at Olde Humbug's offices. They explained the purpose of wanting to speak to him and that he might wish to consider speaking to his solicitor before continuing. Side left at 9.16, returned at 9.25 and informed them that his solicitor would be attending any interview.

At 10.11 Side returned and introduced his solicitor, who said he had advised his client to co-operate fully. At 10.15 the interview, which was taped, commenced. Following introductions, Side was cautioned. The first tape ended at 10.45. The second tape commenced at 10.46 and concluded at 11.01.

Side confirmed that he had dealt in Olde Humbug's shares

as identified by the surveillance department. He denied being told of the bid approach prior to his purchase of 5,000 shares on November 15. The reason given for the purchase was that Crystal, an old friend, had recently joined Sugar Products and he hoped that they would be able to work together in developing and expanding commercial links between the two companies.

Side admitted that the purchase on 18 January of 5,000 shares at 14.14 was prompted by his being told by Chattie that a deal with ICB was likely. He said he did not know if the information was public.

He denied discussing the bid talks with anyone outside the company. He confirmed he had been shooting with Crystal in December. The names of other people who had dealt were put to him. He said Punter had been in the same shooting party as Crystal and himself, although they had not previously been acquainted and they talked little during the weekend.

Side said the deals were tiny in comparison to his portfolio of £3m invested in the stock market. At the end of the interview, he was handed a notice explaining how he could get access to the tapes. His solicitors were supplied with a copy of the tapes on April 10.

2.8 In the light of Side's admission that he had bought because of the information he had obtained from Chattie, it was decided to attempt to establish the conduit of any other information to the suspicious dealers in Scotland and also in particular to Punter and Banque Internationale de Bruxelles.

The department then wrote to the Belgian bank asking for whom it had bought the Olde Humbug shares. The bank supplied the name of a Liechtenstein-based *stiftung* or trust. A letter was sent to the trust requesting details of its beneficiary.

2.9 An apparent link from Olde Humbug to Punter was Crystal, who agreed to be met at a hotel in Glasgow on April 5. He was interviewed there at 4.15. He confirmed he knew Side



Holding the fort: exchange chief executive Michael Lawrence who is out to stop insider trading

both socially and through business. He said he was not told that Olde Humbug was considering merging with ICB. Crystal freely admitted that he recommended ICB's shares as he thinks it is a good business, but he was adamant he had not heard about any merger activity. He confirmed that Arrowroot of Gumme was one of his more important suppliers.

He was also asked if he had heard of Punter. He said he knew him and dealt with him on business matters. He described him as someone who

would buy and sell anything. He knows that Punter is very active on the stock market as every time he goes to Punter's office he is always on the telephone to his broker. Punter is well aware of Crystal's relationship with Olde Humbug and frequently asks how the company is doing. Crystal has recommended Olde Humbug's shares to Punter.

2.10 On April 15, Chattie telephoned the department to say that he had become convinced that Side had breached his trust. During this conversation it was established that Side

had resigned following advice from his lawyer.

## Conclusion

3.1 There is evidence of insider dealing by Side and consideration should be given to referring this matter to the DTL. The large transactions by the various connected dealers in Scotland and those of the Liechtenstein trust may also be of interest. Punter has been interviewed by this department on previous occasions. No attempt has been made to interview him this time.

## A click of the mouse is all it takes to track the share raiders

The stockmarket's Big Brother, watcher of every share deal carried out in London for signs of criminal activity, lives in a seedy suite of rooms on the fourth floor of the Stock Exchange's dirty grey tower in the City.

If it were not for the presence of some spanking new computer hardware, it could be the set of the 70s cop show *The Sweeney*, all plywood chairs and threadbare synthetic multi-coloured carpeting.

These are the offices of the 19 members of the Surveillance Group, whose role is to identify possible insider deals, market manipulation or other criminal activity involving share trading and also to carry out investigations, which can last up to three months.

The task of identifying possible insider deals has always been mind-boggling because of the vast number of share price movements or transactions which have to be examined every day for possible breaches of trading rules as well criminal activity. On a typical day, the exchange scrutinises between 1,000 and 1,200 such trading "events".

Inevitably, many of the cleverest insider dealers are not caught. But the Integrated Monitoring and Surveillance System (Imas), a computerised tool the exchange has been using since the end of last year, has made it harder for insiders to hide.

According to unpublished figures, the exchange's surveillance group opened 101 cases for investigation in the first seven months of the year, of which 75 were into alleged insider trading. That compares with 100 investigations in the whole of last year including 57 insider probes. However, in the nine months to date, 18 insider trading case files have been passed to other agencies such as the Department of Trade

and Industry, the Securities and Futures Authority and the Takeover Panel for further investigation - compared with 16 in the whole of 1993.

The DTL, which has the power to launch its own insider-dealing investigations under the Financial Services Act and also decides whether to prosecute, has received 10 referrals from the exchange so far this year. It received seven in the whole of last year.

The rise in the surveillance group's investigation tally reflects improvements in the detection rate, not in the incidence of the offence, the exchange believes. The surveillance group, headed by Mr Mike Feltham, was hampered for many years by slow and cumbersome methods for obtaining basic share trading information from a variety of sources within the exchange. It could frequently take a fortnight to collate and analyse all the relevant data.

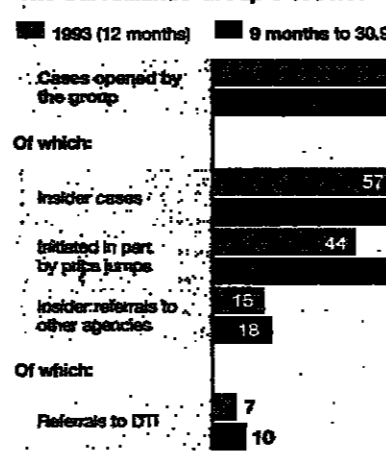
One effect of Imas has been to improve the quality of the analysis of trading information, since the raw data and the trends can all be seen on the same screen. At the click of a mouse, it provides:

- The time of all transactions in any UK shares;
- The name of the broker or marketmaker who carried out the deal;
- The coded names of the clients who placed the orders;
- A great variety of graphical information which allows trading patterns to be identified.

Its more important benefit is that it has compressed the process of identifying sinister trading patterns and who is behind them from weeks to hours. "The element of surprise is vital in obtaining a confession from an insider trader", said one former member of the department. That requires the suspect to be interviewed soon after the

## Market watching

## The Surveillance Group's caseload



Sources: Stock Exchange, DTL

alleged offence took place. The more time that elapses before this interview, the greater the risk that he or she will be tipped off that a probe has commenced and will concoct an apparently legitimate reason for trading.

A recent example of the speed with which the group can now complete its probes was the case of alleged insider trading involving Lord Archer. After the media group, MAI, made a takeover bid for Anglia Television in mid January this year, the group carried out - as a matter of routine - an analysis of Anglia share deals in the preceding weeks.

Within three days it had compiled a case file on the best-selling novelist's orders to purchase 50,000 Anglia shares. It passed the file to the DTL, which investigated the affair for five months before deciding not to prosecute him.

The surveillance group typically measures its performance by reference to its counterpart at the New York Stock

Exchange, whose international reputation in fighting insider trading is probably stronger. But Imas is in one important respect superior. The NYSE does not have any electronic access to information on investors who place share orders. Its computers show only the securities firms which have carried out the deals on investors' behalf. So the NYSE has to telephone the firms to get any investor details, which brings with it the risk that the firm will tip off the probe target.

The group in London cannot obtain from Imas the names of investors behind deals. But each investor is given a code by every broker firm which is a member of the exchange, and Imas supplies these coded names. This allows the group to establish trading patterns and possible links between transactions without having to make any telephone calls.

The Imas information is not comprehensive, however. The group can match full names to codes for only a limited num-

## Insider dealing prosecutions

	NUMBER OF TRIALS	NOT GUILTY	GUILTY
1980	1	—	—
1981	1	—	1
1982	2	—	3
1983	—	—	—
1984	2	2	—
1985	1	1	—
1986	2	1	1
1987	2	—	2
1988	2	1	1
1989	7	7	3
1990	4	3	3
1991	4	5	3
1992	2	2	4
1993	2	—	—
1994	1	—	2

Not guilty verdicts include prosecutions where cases against a defendant were withdrawn

\* Figures include one individual acquitted on appeal in 1994

ber of investors, since there are millions of different codes. It will frequently have to ring a broker in the end to establish who placed a share order.

Another significant omission from Imas - and indeed from any electronic information source in the exchange - is details of the enormous equity exposures taken on by securities houses and their clients in the over-the-counter derivatives market. These OTC positions can on occasion be the dominant influence on a company's share price. But at the moment only the Securities and Futures Authority collects detailed information on these deals - which it passes to the group in response to requests.

Given the importance of price movements in generating probes - 67 of the investigations in the first seven months of the year were to an extent initiated by price "jumps" - lack of access to derivatives market information is quite a handicap.

As well as being a database

and analytical tool, Imas is an early warning system. It produces "alerts" every time there is an unusual price jump, or a substantial transaction, or unorthodox pricing by market makers - the wholesalers of shares - or an apparent breach of the exchange's rules on the reporting of transactions.

These alerts are initially scrutinised by the market supervision department, which is responsible for making sure that trading rules are followed by exchange members and that dealing remains "orderly" or not excessively volatile. But when it detects possible criminal activity, the surveillance team takes over.

The 19-strong team is split roughly down the middle between the intelligence gatherers, who operate Imas and collect information from other sources, and investigators who conduct interviews of suspects and witnesses.

The intuition and experience of the intelligence gatherers, led by Mr Alan Wilson, plays an important role in deciding which transactions should be passed to the investigators for further scrutiny.

For example, substantial purchases of an FT-SE company's shares prior to a price-sensitive announcement would probably not be considered sinister if they had been carried out through a big securities house, such as Warburg Securities, since Warburg is carrying out substantial deals continually.

However, the group would almost certainly conduct further enquiries if a minor Scottish broker, whose typical deals are small, were shown by Imas as a substantial purchaser of that company's shares.

There is a split between those team members who think that its most valuable tool is human intuition and those who place more of their

faith in computerised analysis. This battle may take a decisive turn in the coming months with the integration of new computer software into Imas.

A prototype system, based on advanced artificial intelligence programmes developed for the exchange by University College, London, has been able to identify links between different share traders which were hitherto impossible to establish. The model has for example uncovered possible concert parties consisting of up to 15 different clients of a series of securities firms, by noticing that groups of the 15 almost always trade in the same securities at the same time, even if all 15 rarely trade together.

But establishing who traded in any particular case is only half of what the group does. Before passing a dossier to the exchange, it needs to gather evidence of why investors carried out particular transactions. Even if trades in a company's shares ahead of an announcement turned out to be by the company chairman's mother, that would still not be deemed sufficient evidence to pass to the DTL. In most cases, the group's investigators would interview the woman to ask her why she traded.

In around 70 per cent of the cases where the beneficiary of a suspicious transaction is identified, he or she will be interviewed. "It is the exchange's job to try to establish whether information was passed and how it was passed", said a former official.

Again this is very different from the NYSE, which never talks to any outsiders. It passes only trading data to the Securities and Exchange Commission, which then takes responsibility for all further investigation including interviews.

The exchange's investigators behave very much like police-

men. They are trained in interviewing techniques and how to obtain testimony admissible in court. Frequently they will caution interviewees, using the standard form of words employed by the police.

Unlike the police, however, they very rarely meet overtly hostile responses from interviewees. The investigators opening gambit of "I am from the Stock Exchange and I have come to ask you about some share deals you carried out" is frequently met with at least a partial confession, according to past and present officials.

However, evidence is far more difficult to obtain once any transaction is routed through offshore financial centres. Switzerland is now co-operating to an extent with UK insider dealing investigations and providing some details of the beneficiaries of share trades carried out by Swiss banks.

But it remains almost impossible to establish the identity of anyone trading through a nominee company in the Cayman Islands or the British Virgin Islands.

Some brokers and fund managers question why the exchange should invest so much time and money investigating insider trading, given that obtaining a successful prosecution appears so difficult. One fund manager said: "The exchange is pretty good at investigating, but to what end? Sometimes I think someone should do a cost benefit analysis on their surveillance unit. Is it really worth the cost?"

The exchange's reply is that deterrence is not just about putting people in prison or fining them heavily. One official said: "You would be surprised how often executives mysteriously resign from their companies after the surveillance group has conducted a probe."

Environmental issues:  
code of practice  
published: Page III

# BUILDING SERVICES

Air conditioning:  
attitudes are  
changing: Page IV

Monday October 3 1994

Consumers have been reluctant to pay the price for efficient service systems. But there are indications that the tide may be turning. David Lawson reports

## Green conundrum for the experts

Two groups of experts sitting down today at opposite ends of the UK will be trying to solve the same conundrum.

If so much store needs to be placed on cutting costs and saving the environment why is there so little interest in more efficient, "greener" buildings? In Brighton, more than 50 construction professionals at the annual Chartered Institution of Building Services Engineers' annual conference will be exploring why low-energy buildings are so rare. Meanwhile, in Lancashire builders will be meeting for an update on the fortunes of the National Home Energy Rating Scheme.

One common factor is almost bound to emerge. Consumers are reluctant to pay the price for future savings. Efficient systems for handling heating, lighting, ventilation and the myriad other functions that keep commercial buildings ticking over cost more.

Occupiers dislike service charges but refuse to accept the higher rents or construction costs necessary to cut them. Homebuyers are little different, opting for cheaper houses rather than those with better insulation and materials.

But the tide may be turning. The government is committed to a 20 per cent reduction in carbon dioxide emissions by the year 2005. Buildings in the UK produce half the carbon dioxide pollution, and will be regulated more rigorously when new construction regulations come into force next April.

VAT charges on fuel will make homebuyers more sensi-

tive to running costs. But commercial users are already aware of an energy bill which has soared past £20bn a year for UK buildings and threatens to go further if the expected carbon tax emerges later this decade.

Other worries are also crowding in. Modern buildings have begun to demonstrate frightening side-effects. Electronics adopted to save costs appear to require expensive servicing. Staff fall sick for no apparent reason, and even passers-by can be struck down by invisible bugs.

Security takes on a new dimension. It must combat not only bomb threats in the City of London but burglars hungry for desk-top computers. Even hospitals now have to consider elaborate alarms to protect new-born babies. Fire safety is another problem in sealed office blocks and shopping malls.

Overlaying all this is a drive to cut costs as businesses drag themselves out of recession. While energy-saving is the main driving force, this combination of factors has brought the whole range of building services into prominence.

This is a leading industry worth more than £8.5bn in 1992: 20 per cent of the total construction contractors' output, according to the Building Services Research and Information Association. Mechanical and electrical engineering alone was estimated at almost £7.5bn last year.

Many occupiers facing the task of trimming spending would be surprised to discover the number of activities qui-

etly going on in the background to keep their building working. An average 10,000 sq ft office block costs more than £80,000 a year to maintain, according to the annual Office Service Charge Analysis (Oscar) of property consultants Jones Lang Wootton (JLW). The cost includes energy, security, heating, air conditioning, maintenance, management, cleaning, repairs, wages, lifts, insurance and water.

It does not include buildings insurance and applies only to common parts covered by landlords. Tenants pay extra for their own cleaning, lighting and other services.

The lion's share goes on energy (£1.20 a sq ft) and heating/air conditioning (£1.05), one reason why a fierce debate now rages over the energy bill. A non-air-conditioned block costs 30 per cent less to run than a block with air conditioning (£4.15 a sq ft instead of £6.03p), according to JLW.

Much of the debate in Brighton will centre on why air conditioning has become almost universal over the past decade. Engineers blame this on developers, who pass the buck to estate agents, who in turn insist this is what occupiers demand.

The same chain of blame applies to electrical services. Designers vastly overestimated the needs of modern technology during the 1980s, producing over-expensive buildings equipped with air systems capable of extracting vast amounts of heat from electronics and heavyweight electrical systems to power them.

Many occupiers are paying a

premium for ventilation systems that run below capacity - and therefore inefficiently - plus extra charges to electricity suppliers for not using up their contracted loads.

Service engineers say this is partly because of their lack of status. "We should be brought in earlier to advise on what is really required in buildings," says Mr David Lush, a consultant with Ove Arup and former president of the Chartered Institution of Building Services Engineers (CIBSE).

Air conditioning is now under scrutiny, however. Manufacturers insist that it is still necessary in town centres, where noise and dirt preclude opening windows. They are

producing systems which are both "greener" and more efficient. Chlorofluorocarbons will soon disappear and blanket use of full-blown variable air volume (VAV) systems is giving way to partial air conditioning.

The manufacturers have one eye over their shoulder on the government. Air conditioning only escaped rigorous controls in next year's reforms of building regulations because ministers were persuaded the controls would be unworkable.

It had been suggested that builders justify every system with evidence from occupiers that such technology was essential. They argued that buildings were usually constructed long before anyone

knew who would occupy them.

But the pressure for reform remains intense. The government expects a more practical solution and the British Property Federation and CIBSE are trying to create either an energy scoring system or an environmental "shopping list" that can be applied to commercial buildings.

Other pressures are coming from Brussels, where the European Union is pouring out a stream of directives. "The problem is that we are not being consulted," says Mr Kenneth Dale, president of REHVA, the Federation of European Heating and Air Conditioning Associations. One

rule demanding that every electrical item had to be checked every year had to be revoked after service engineers showed the crippling cost of such a task.

Little hard evidence has emerged that changes are taking place on the ground - mainly because so few buildings have gone up during the recession. But some promising signs are looming on the horizon.

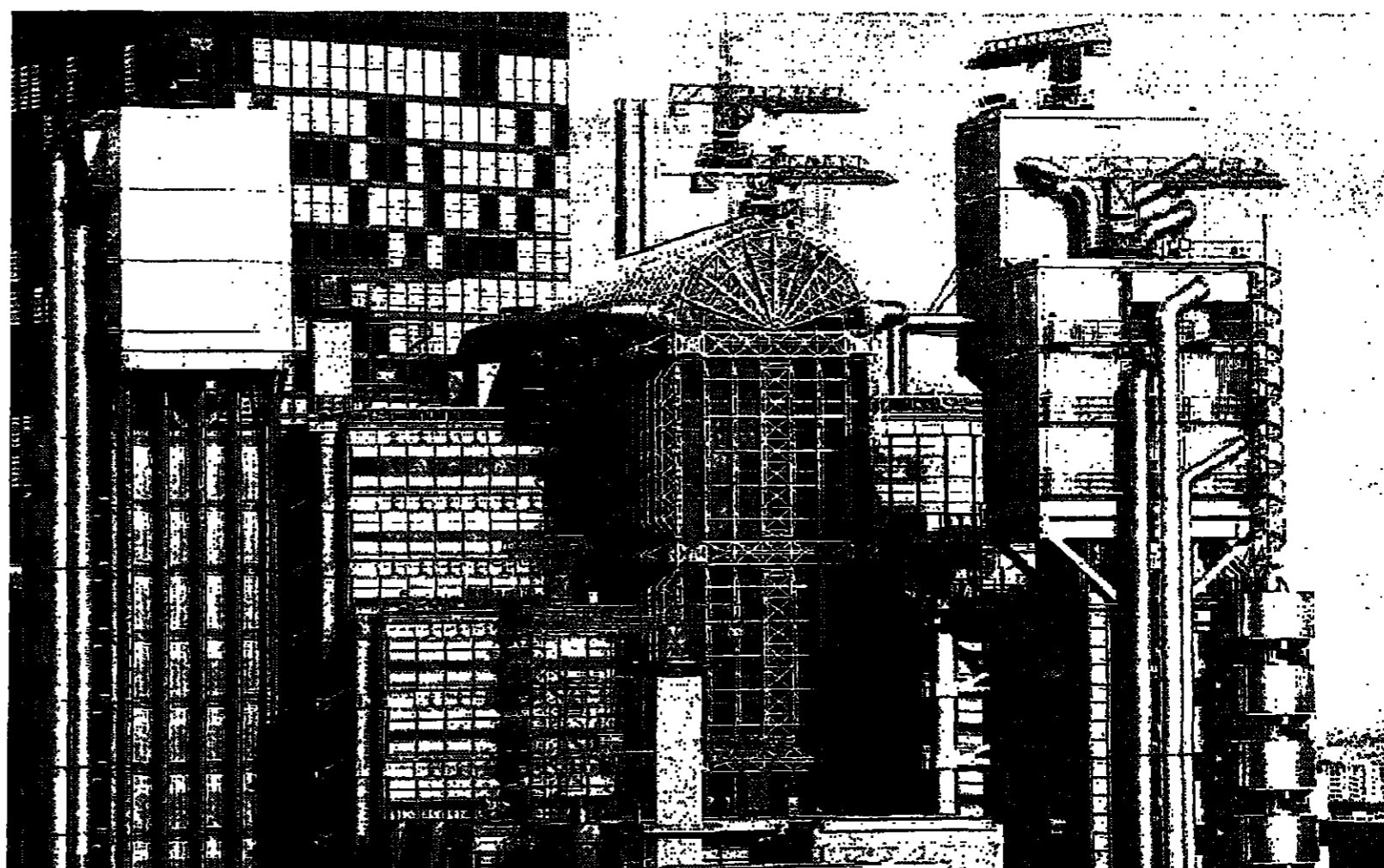
Shell-and-core techniques are creeping in, where developers wait for a tenant before putting in all the services. This gives engineers a better chance of influencing decisions.

Developers have always claimed that occupiers demand

to see finished buildings - even if that means expensive replacement of unsuitable services later. But Coca-Cola has made an early claim on an unfinished 80,000 sq ft block in Hammersmith because it saved having to throw out the developers' fittings and gave better control over the end product, said Mr Stephen Watkins, the company's property services manager.

This technique, common in other parts of the world, will become more common, says Mr Chris Hiatt of JLW, particularly as computer advances allow agents to take potential occupiers around "virtual reality" buildings rather than

Continued on Page 11



The 'inside-out' Lloyd's Building in the City of London gives a good idea of what normally lies beneath the skin of most buildings. Working inside the machine. Page 4. Picture: Trevor Humphries

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## BUILDING SERVICES II

## ENERGY SAVING

## Awareness is spreading

Energy saving has taken on a significance akin to the hunt for the holy grail. This has less to do with the semi-religious frenzy over global warming, however, than the grinding weight of economic recession.

During the cost-cutting induced by falling profits, occupiers began to realise how much they were paying to heat the surrounding neighbourhood.

Despite multiple oil-price shocks, many were still living in the era of cheap fuel. Luckily, energy-saving has proved a lot more attainable than the mythical grail.

The campaign to curb air conditioning, dealt with elsewhere in this survey, has made headlines. Yet supporters claim that it accounts for less than 4 per cent of the energy consumed in commercial buildings and produces less than 1 per cent of the UK output of carbon dioxide.

Choice of air conditioning also applies mainly to new construction. But the bulk of the problem lies with existing buildings, whichever way they are serviced. These are being tackled with a less glamorous, but more productive, campaign of uprating the management of energy systems.

Energy-saving schemes are not new. The Vickers tank plant in Newcastle, for instance, was worked over

more than 10 years ago by Ryder Nicklin, architects and engineers. Draught-proofing, integrated energy controls and low-energy lighting cost £2m but cut bills by 90 per cent to £70,000 a year.

This kind of awareness of energy costs is spreading out of the manufacturing sector, says Ken Ordish, managing director of ESS Projects.

Groups such as NatWest Bank and Bass Breweries have commissioned energy "audits" of buildings ranging from high street branches to administration blocks, pubs and hotels.

Other factors than the blitz on costs may be helping this change.

The Building Research Establishment (BRE) has created an Environmental Assessment Method (Bream) for testing the "greenness" of buildings, which groups such as the BBC and London Transport have promised to use.

Just as important, however, is the work the BRE's Energy Conservation Support Unit (ECSU) is doing to get such issues discussed at board level. Occupiers often have the in-house specialists who know the problems, but they do not

have the communication skills - or status - to get the message across, says Bream. It has persuaded 1,500 top companies to commit themselves to "re-education".

Decisions on energy-saving are filtering down from the top, says Mr Ordish. Now his part of the industry has to solve problems that arose because service engineers were not consulted in the past. "It is often a case of making existing controls work properly," he says.

"If the people who run buildings were consulted earlier by mechanical and electrical engineers in the planning of buildings this would not happen."

Privatisation is also having a big impact. Schools and hospitals find that the freedom of opting out of state control also brings the burdens of paying big bills.

Two trusts set up in the Nottingham area, Healthcare and Community, discovered an energy bill of close to £1m on 28 premises ranging from large hospitals to small day centres spread across the city. They also faced a responsibility to match the government's request to industry for 15 per

cent energy cuts over the next five years.

Phil Winstanley, the energy manager, will be plugging one gap by early involvement with premises now being built. Existing premises will be drawn together into a central building service network under which conditions can be remotely monitored by desk-top computer or the service engineers' portable lap-tops.

One problem is that two kinds of control equipment are in use - Andover Infinity on larger sites and Satchwell on others.

This is being tackled by more systematic specification in future, but that leaves the task of stitching two existing systems together.

ESS has installed building energy management systems (Bems) which should soon be able to integrate control through a C&C data engine. It should also be able to cope if other brands of control equipment are required in future.

Tight budgets mean the cost of installation must be covered by energy savings, and this has already started happening. The last energy bill came to

just over £1m, which Mr Winstanley estimates as an 18 per cent cut on two years ago. This should fall further as ESS works its way through the remaining buildings.

Each has been prioritised through an initial monitoring exercise which gave ESS a window into the trusts' systems from its base 25 miles away.

Consumption profiles were built up from physical factors and energy use. Payback periods were decided in co-operation with the finance departments on a cost ratio basis.

Struggling with poorly specified or obsolete technology is a common factor. Chesterfield's Sallergate Health Centre had to keep the heating on permanently because parts were impossible to find, running up bills of more than £15,000 a year. But new technology can now cope with this sort of problem.

Fitting Bems saved the centre the equivalent of more than £2,700 in the first 10 months, says ESS.

The system is intelligent

enough to adjust water heating to different levels according to requirements for each part of the building. It even calculates when to turn on so the temperature is correct at opening time.

Besides a local display board, the controls can be adjusted over the phone by the health authority's district energy manager.

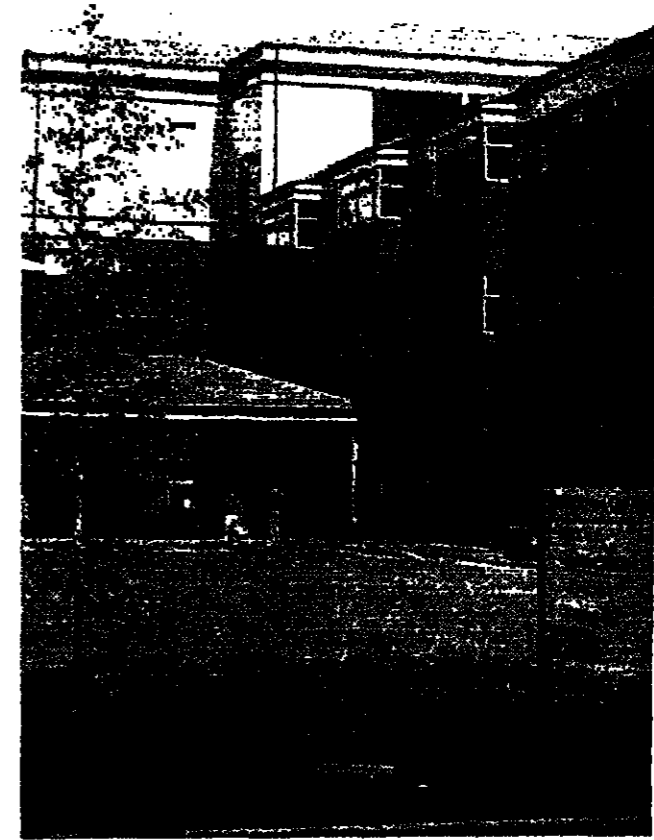
This helped cut costs by 18 per cent last year, when the older system would have reacted to the unusually colder weather by pushing the bill 10 per cent higher.

Monitoring is a crucial part of energy management which is often overlooked, says Mr Ordish. "Settings may be ideal when a building is first occupied but uses - and users - can change."

Many occupiers will have to remember that energy saving is a continuing task involving regular audits to ensure that the systems are working correctly.

Those currently driven by concern for the environment may forget this as fashions change. Then the cycle will come again as recession - or a fuel tax - finds them rediscovering the need for cost-cutting.

David Lawson



ESS supplied an energy management system to Nottingham City Hospital

## COST-EFFECTIVENESS

## Towards more flexibility

Even the most mundane workplace is cocooned nowadays in a network of wire, data links, several kinds of computer cable, telephone cords and - hiding in this web - electrical power leads.

"Any change of hardware can result in a change to the cabling," says Stephen Hill of Oscar Faber Information and Communications. "And of course no-one knows which are the original ones, so new cable is simply piled into the trunking."

Moving desks can be just as chaotic, as the confusion over what goes where is compounded by the fact that cabling seems to match. A PC cut-out use a mainframe terminal wire any more than it can a power lead - as service engineers sometimes find to their cost.

This is no isolated problem. Offices "churn" constantly, moving half their work positions within the first year of occupying a building and up to 30 per cent annually after that, says Mr Hill. More than half require re-cabling, costing up to £400 per person.

One solution has emerged

over the past five years, however. Structured wiring schemes (SWS) involve highly specified cabling which can accommodate a wide variety of users. Conversion equipment and special junction boxes mean that people and their computers can be moved around easily and simply. The cabling works for any kind of hardware, so that, too, can be moved or changed. This cuts the cost of churns to £20 per person, says Mr Hill. The extra cost of SWS pays for itself in two or three years.

But what about a mechanical digger waiting to wreak havoc in the road outside? Simple, he says. Lay in a second, standby, connection. "The cost is negligible if provided at an early stage."

One of the main complaints

of engineers is that such systems have to be retrofitted because they are not involved early enough in planning services. Developers argue that so much is determined by planners and tightly constrained finance that it is pointless calling on engineers until the detailed services are required.

This is compounded by the strangely British way of completing buildings before anyone knows the specific needs of occupiers. Developers and agents argue that tenants will not take premises until they see everything in place. Occupiers then merrily tear out thousands of pounds' worth of fittings to replace with their preferred options - or make the best of services such as cabling and air conditioning that are patently unsuitable.

Some progress has been made towards the US technique of taking buildings only to "shell and core" stage. This means that the frame and cladding are finished but only the main services are installed in the core. Occupiers then specify what they require on the lettable floor areas.

The reason is more to do with a fall-off in speculative development than any change of heart by developers, however. Pre-lets are now the norm, so they are dealing with an occupier who will specify the services needed.

The spin-off is more "appropriate" buildings, says Kevin

Cooke, divisional director of cost consultants AYH Partnership.

"We can now get past the agents and their demands for excessive specifications," he says. Power-loading is his particular bugbear. Reducing the specification on one 400,000 sq ft scheme in London from 25 to 15 watts per sq metre cut capital spending by £400,000 and maintenance-running costs by £80,000 a year.

Another message getting through to occupiers at this early stage is that buildings should not be judged solely on initial construction prices. Life-cycle costing, which takes into consideration the running and maintenance bills for plant and equipment, has been preached by engineers and surveyors for years. Now they can make a case directly.

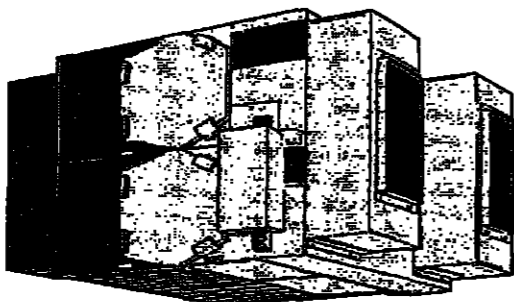
Developers remain unconvinced. "We see the looks on people's faces when presented with bare concrete and pipes," says one. "They want something nice to look at before putting their hand in their pocket - even though they know it could all come out later."

But while buildings remain hard to let, developers find they have to pay this double cost of fitting and refitting themselves, so the prospect of more shell-and-core schemes - and "appropriate" servicing - has brightened. Institutional funders are also being won over, as the core services can be matched to their standards even if letting areas are tailored for individual users.

Whether this survives a market recovery remains to be seen. But both funds and occupiers are adjusting to the idea that they should be demanding buildings flexible enough for tomorrow's tenants - whoever they might be.

David Lawson

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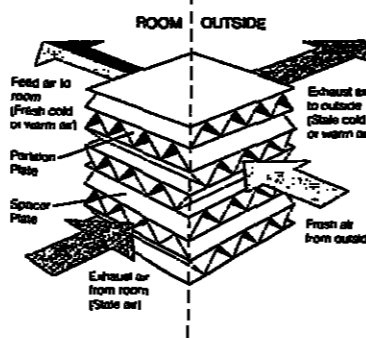
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## A green conundrum for the experts

Continued from Page 1 waiting for a finished one.

The most significant pressures for change over the next few years may come from occupiers themselves rather than conferences and regulations. Soaring energy bills, concern over the impact of "sick" build-

ings on productivity and potential legal responsibility for legionnaires' disease bugs in water systems are all making tenants more aware of the services hidden in their buildings.

Developers such as Norwich Union have taken up the challenge, offering to produce blocks which are both greener and cheaper to run. If occupiers take up the challenge, engineers will welcome it with open arms. In the meantime, they face a long campaign to adjust the vast bulk of existing services either upwards to meet modern demands for efficiency, or downwards from the inflated ideas of the 1980s.

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Tim Burt reviews research and innovation

## Beware the back burner

When more than 1,200 opera lovers rose to applaud the first night of *Figaro* at the new Glyndebourne Opera House, few of them paused to consider the triumph of engineering behind the scenes.

The £30m East Sussex auditorium, however, would not have been ready to stage last May's inaugural production had it not been for the use of innovative building services technology.

That expertise, drawn together by consultant engineers Ove Arup, depended in large part on products developed overseas. The cast list of the building's main equipment suppliers was dominated by international stars such as Fröling, Weishaupt, Trane, Grundfos and Krantz.

Critics of the UK building services industry argue that contractors favour such products because they represent thousands of hours of research and development – an area which has been comparatively neglected in the past in Britain.

"Research and innovation on building services is taken much more seriously in Scandinavia and North America," says Dr Leslie Hawkins, director of occupational health at Surrey University's Robens Institute.

"We have just as many ideas affected by sick building problems, but we don't seem willing to commit the research funding needed to examine it."

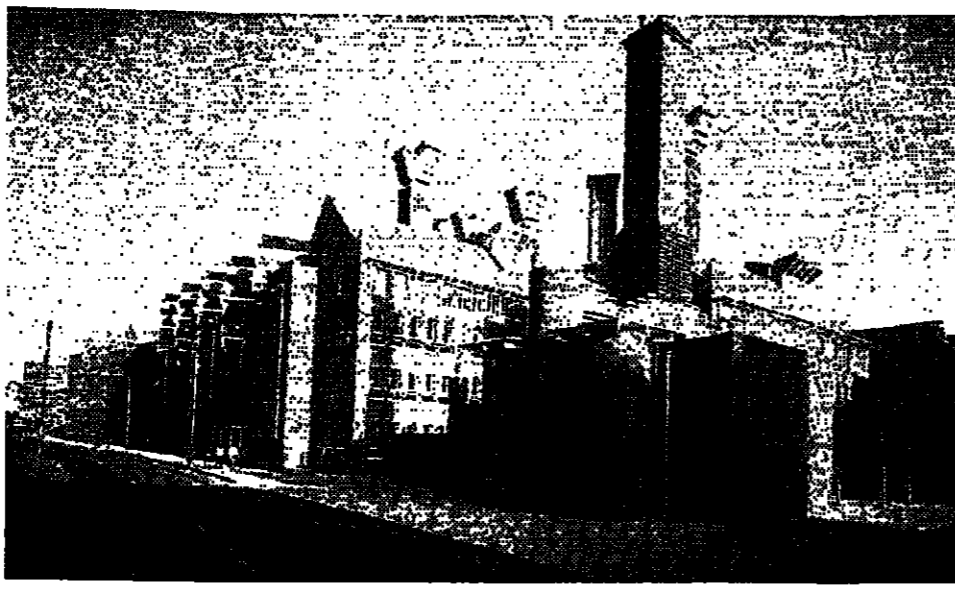
His concern is echoed at the Building Research Establishment (BRE), the research agency funded partly by the government.

Mr Stephen Willis, head of the new technologies and controls section in the BRE's environmental systems division, warns that innovation in the UK still lags behind overseas competitors and is often regarded as conservative.

That fault may be due to the tendency among British architects to first design a building and only consult building service engineers afterwards to make the plans work.

With little room to manoeuvre, the engineers sometimes have no option but to fall back on expensive and costly systems for air conditioning and other services.

Moves to introduce supposedly innovative ideas, such as



Innovation: De Montfort University's new school of engineering and manufacture makes use of natural ventilation

manually-opened windows for natural ventilation, sometimes also run into hostility from owner-occupiers who regard such ideas as unpromising and old-fashioned.

In some cases, there has also been a reluctance by the construction industry to embrace schemes which could threaten their lucrative maintenance contracts.

The government, according to Mr Willis, has recently urged companies to change their attitude by taking part in collaborative research funded jointly by industry and the Department of the Environment.

Pressure to increase research

By implication, industry could do more to support development of new technology

funding mounted following the 1992 Rio Convention on Climate Change, in which Britain acknowledged the need to reduce greenhouse gas emissions from commercial buildings.

As part of that commitment, the BRE has launched a £1m energy-related environmental issues programme, which includes 20 research projects on subjects ranging from guidance on air conditioning to guidance on refrigeration systems and the application of neural networks.

its work is being matched by the Building Services Research and Information Association (BSRIA), which represents almost 800 contractors, manufacturers and consulting engineers.

Although it has 21 research projects under way, Ms Anne King, the association's marketing director, admits: "We do not compare favourably with overseas competitors on R&D. Britain spends less than Germany and Japan on research, even though government backing has not been cut."

By implication, industry – which funds 23 per cent of BSRIA's £2m research funding – could do more to support development of new technology. But in a sluggish commercial property market, construction companies are anxious to keep building service costs to a minimum and have been slow to change.

There are, of course, buildings which show that innovation works. Mr Stephen Willis, at the BRE, cites the De Montfort University's new school of engineering and manufacture as an example.

Part gothic, part art deco – it makes use of natural ventilation and large areas of glass to maximise light and heat.

Mr Willis claims that similar schemes are relatively rare because of a lack of training initiatives among the building service engineers who advise on plans for new or refurbished buildings.

"I don't see a great deal of evidence of professional training. Without that, one ends up reinforcing the conservatism in British building services."

Dr Hawkins at Surrey University agrees. He blames most of the problems on air conditioning systems, one of the main contributors to sick building syndrome.

"We seem to be extremely bad at getting air conditioning to work properly. I've come across a lot of companies with excellent facilities which are allowed to deteriorate through poor maintenance."

Claims that a lack of professional training is largely to blame are rejected by the Chartered Institution of Building Services Engineers.

There has been a shift to continual professional training since the mid-1980s, according to Ms Jennifer Hand, spokeswoman for the institution.

"Our 15,500 members are required to keep abreast of new developments and we have increased the emphasis on updating skills for professional building service engineers," she says.

Citing changes in the training framework, Ms Hand points to the scheme run by Ove Arup. Under its training programme, some 300 graduates are guided by senior supervisors through courses ranging from acoustics to structural engineering.

"It's a throwback to the apprenticeship system and we now create a gateway for graduates to pursue the right career as part of a professional review process," says Mr Roger Chantrelle, training and devel-

opment manager at Ove Arup. The scheme, however, is thought to be the exception rather than the rule in an industry under pressure to cut costs and trim back on research and development spending.

"There is still not enough money being put into prevention of sick building syndrome through R&D," says Dr Hawkins.

Industry, it seems, has yet to be persuaded. Under government pressure, it has paid more attention to research and new innovation. But remedial maintenance of existing systems is thought to be a more lucrative pursuit than installing new and innovative products.

In an industry still climbing painfully out of recession, research and development runs the risk of being consigned to the back burner.

A cartoon sums up some of the thinking behind recent moves on the environment in the building services industry. It depicts a bright, pristine planet, earth with two figures. One, called The First Client, is drawn with a god-like flowing white beard and gown. He instructs a small, confused individual called The First Engineer: "Okay, now put in the services".

The next image is of the same planet almost completely covered in smoking pipes and tubing, oxygen tanks and numerous different gadgets. The client says to an exhausted engineer: "Fine, fine. But where do the lifts go?" If only there had been more communication – if only the engineer had been in the act of creation at the beginning – his efforts to supply the end product with the services it needed would not have been quite so damaging. The cartoon is used on the cover of a report which aims to do something about this state of affairs.

The Building Services Research and Information Association published an environmental code of practice earlier this year. The code, sponsored by a range of clients and funded by the Department of the Environment as well as by industry, aims to cover the process of building from inception to dismantling.

Although most people in the building services industry accept that their chances of improving the environmental impact of buildings would be enhanced if they were brought in at the inception of any project, the code aims to provide advice and recommendations for the "real world", says its author, Sandy Halliday, principal engineer and environment section leader at BSRIA. This world consists of engineers being called in once a building is built, or for refurbishment once it is already past its prime, or for demolition.

## ENVIRONMENTAL ISSUES

### Code of practice published

The code, the result of three years' work, will be distributed to architects, project managers, quantity surveyors and designers as well as the association's 800 or so building service members. It was sponsored by a range of clients, from PowerGen and a county council to housing project groups. "We realised quite early on that it was pointless trying to do this in isolation; that everybody involved in building had to realise what was going on," says Halliday.

Lack of awareness and lack of communication have been at the root of the problem for some time, she says. "Traditionally engineers have been given a box and told to heat it

– how to improve the environmental impact of waste disposal, for example – but it also paints the work of a building services engineer on a wider environmental canvas. It questions whether a building is actually necessary.

"This sounds radical for a building services engineer," says Ms Halliday, "but not enough of us actually ask whether we need a building in the first place."

The report warns of the effect that a badly-designed building can have on the local environment. Demolition of unsightly buildings is a "wasteful use of capital resources", it says. It criticises the move away from the use of

tem of refrigeration which uses the outside environment.

Keith Dunsdon, principal partner at the company, believes the industry is only now beginning to wake up to the benefits of environmental technology and developments. "We were perhaps too happy in years gone by to use systems which had worked quite well in one building for all buildings. Now we are being encouraged to be more innovative as well as practical in our energy efficiency, for example."

This change was brought about by a number of factors but particularly the recession, he says, with "people expecting twice as much for their money". Both he and BSRIA are clear that long-term environmental benefits go hand in hand with cost savings in winning projects.

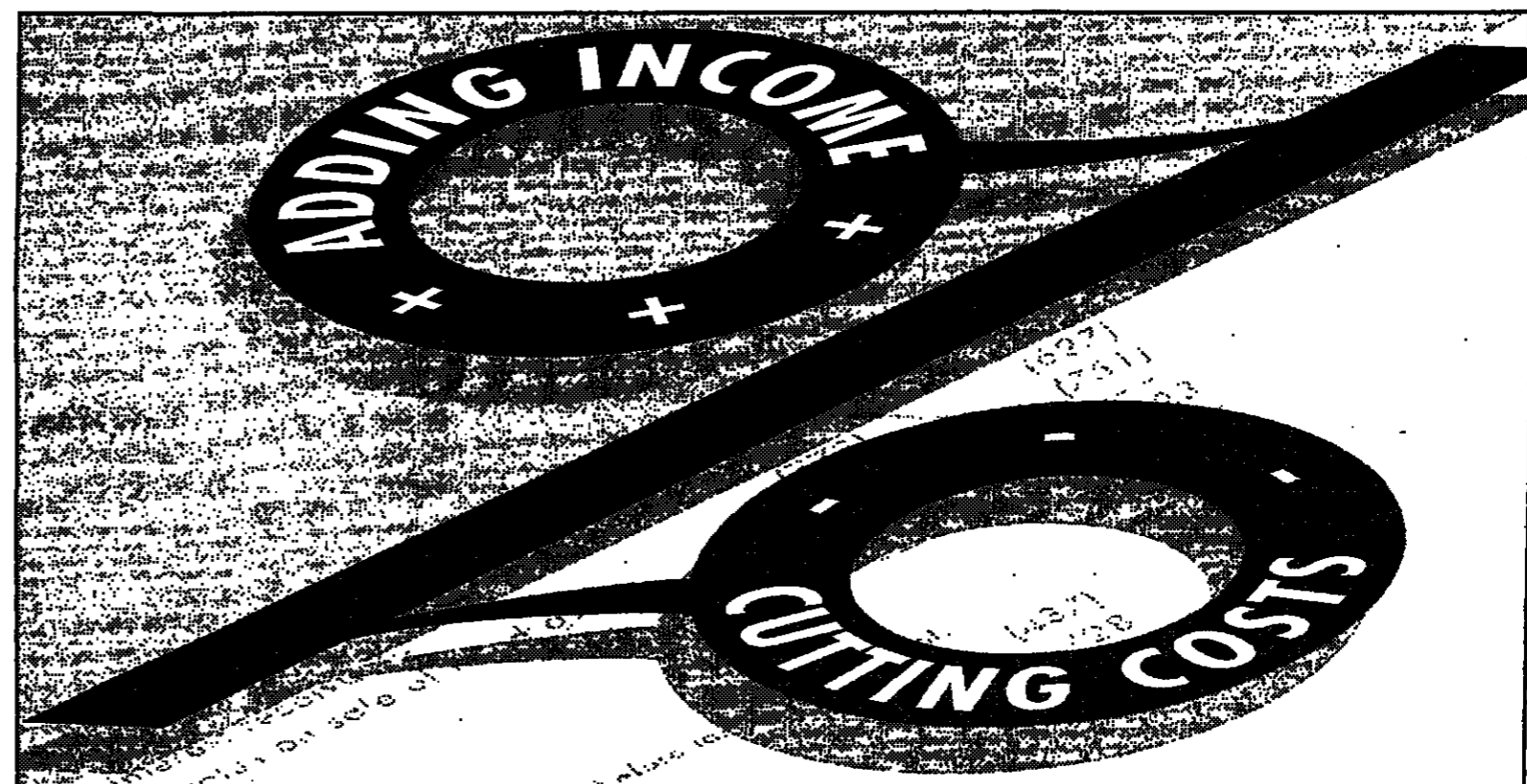
Mr Dunsdon adds that the job is easier with educated clients who understand the advantages of constructing environmentally-friendly buildings. "Sometimes people are worried about new ideas. We've been lucky in working with clients that understand."

A follow-up project will chart the economic and environmental implications of the code by analysing the effectiveness of case studies in the public and private sector later this year.

Sandy Halliday says: "We didn't want to end it there; to say: 'A code has been drawn up – that's it'. We had to make a judgment about how effective the recommendations were in actually cutting harmful emissions, improving the environment and saving money. That's the next step."

Much of the work in terms of attitude has already been done, she says. "At the most basic level, engineers recognise that good sense about the environment makes good business sense. If you can save money by turning lights off, and at the same time save a lot more, then you do so."

Jane Martinson



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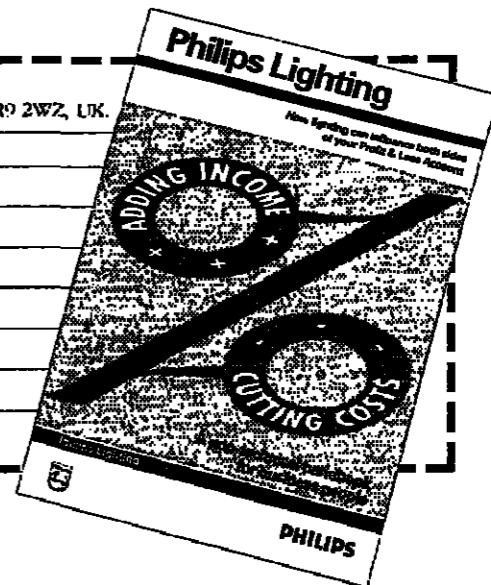
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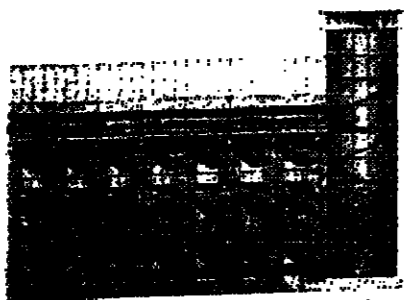
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## BUILDING SERVICES IV

Attitudes to air conditioning are changing, says David Lawson

## Is it time to switch to comfort cooling?

Twenty years ago you would have been hard pressed to find a new building with full air conditioning in the UK. Such technology seemed pointless in a temperate climate. Today, it is difficult to find one that is not festooned with "comfort cooling".

The term has been imported from the US - and there lies part of the reason for this sea change. It is what Tim Battle, an engineer trying to turn back the tide of technology, calls an invasion by the Coca-Cola society. In other words, adoption of all things American, glitzy and futuristic in the constant striving to be modern.

This has infuriated conservationists, who argue that such energy-hungry systems, with their chlorofluorocarbon and potential health risks, are an unnecessary luxury.

Some of the very engineers who have to design and build the systems are often sympathetic. "Modern technology is very seductive," says David Lush, a consultant with Ove Arup and past president of the Chartered Institution of Building Services Engineers.

Disapproving noises are also coming from the government, which tried earlier this year to put draconian restrictions on air conditioning in the next round of building regulation reforms. "There is a general disappointment that they

failed," says Kenneth Dales, president of REHVA, the European Heating and Air Conditioning Associations.

The industry won a reprieve by arguing that blanket restrictions were wrong. But ministers have made it plain they expect designers to come up with measures that ensure fewer systems are installed, and that those that get through are more efficient.

Equipment manufacturers feel the problem has been overstated. In real terms, air conditioning accounts for less than 1 per cent of the UK's output of carbon dioxide and less than 4 per cent of energy consumed by the commercial building sector, according to York International, the world's largest producer. Advances in technology are making the figures look even better, while CFCs will also have disappeared by 1995, it says.

But it is harder to argue away the conclusion that air conditioning has been over-used. Growth of new technology has placed greater demands on cooling systems from computers crammed into even the most mundane work-



Toshiba manufactures air conditioning units at its factory in Plymouth

place. As the noise and dirt of city centres kept windows closed, air conditioning soon became a standard fitting for most city-centre buildings. It then spread to business parks and suburbs where the need for such systems is less clear.

A combination of recession and fears about global warming may be about to create another sea change, however. Engineers have always blamed developers for overspecifying buildings. They, in turn, accuse estate agents, who claim occupiers will not take anything less than full variable

air volume (VAV) systems.

But one of the country's largest developers is about to test this in a 140,000 sq ft block planned for central Croydon. "Our findings show that occupiers are willing to pay a little more for a greener building which cuts energy bills by 30 per cent," says Bob Delafield, project manager for Norwich Union.

This desire to cut running costs - tinged with fear that some kind of carbon tax will emerge later this decade to make things even worse - is still at the experimental stage.



Greener building: a model of the Norwich Union's project in Croydon

Building will not start until a tenant decides that energy-saving is vital and signs up for the space.

Norwich Union is also hedging its bets. This is not one of those "landmark" developments which turns up every few years, boasting complete lack of air conditioning in favour of natural ventilation. "Those are plainly not feasible on anything other than a greenfield site where you have freedom to manipulate important factors like orientation to the sun," says Graham Love, head of project consultancy at

Jones Lang Wootton.

The Croydon scheme is likely to offer "appropriate" cooling such as displacement air techniques, which cut running costs to about half the level of full VAV. But the designs are still flexible enough for future occupiers to fit the sort of systems they desire. The building will be "capable" of using low-energy methods, says Bill Dickson of architects Sheppard Robson. Occupiers will have to decide whether to use that capability. Success will be judged by the business world not in environ-

mental terms but a swift letting. That could lead to further schemes taking off.

Mr Dickson has three others on the drawing board, while Tim Battle, a veteran low-energy campaigner with engineers Rybka Smith Ginsler and Battle, is also hoping to spread his efforts beyond this development. He is advising the Prudential on plans for 250,000 sq ft of offices on the site of Forbury House, Reading, an obsolete Sixties building. This could involve energy-saving construction such as minimising solar gain, as well as "appropriate" air conditioning.

It is also significant that both are city-centre sites, says Mr Battle, destroying the myth that such developments are restricted to green fields.

Norwich Union may also try these new ideas on a proposed office block in City Square, Leeds, although chilled ceilings could be more appropriate for this site.

No amount of success is likely to see central London, the powerhouse of office building, swept up in such changes, however. Rents are much lower in places such as Croy-

don and Leeds, so running costs play a bigger role and are more important to tenants. "If we took this to the City or West End, it is much less likely to be accepted," says Mr Delafield.

But success in Croydon would be a significant break with the stultifying "institutional standard" blamed for blanket provision of full air conditioning in so many office buildings. Letting agents will take immediate interest and give way to engineers' pleas for systems which suit individual needs.

"We are teetering on the edge of change," says Mr Dickson. "Developers know they must provide cheaper buildings. Employers realise that essential staff will not be retained by flashy gimmicks and gold-plated taps." That means a combination of economy and comfort - all within increasingly stringent regulations.

Air conditioning is not going to disappear, despite the wishes of dedicated conservationists. But it will be brought under control. Perhaps this is a good time to change the name to comfort-cooling after all, if only to get away from the idea that buildings either have air conditioning or don't. Far more effort will now go into appropriate systems selected from a wide spectrum of services honed to greater efficiency.

David Lawson on the systems needed to run a commercial building

## Working and living inside the machine

Le Corbusier described the house as a machine for living in, but the metaphor becomes a literal truth when applied to commercial buildings. They contain a network of systems as complex and interdependent as any production line.

Most are well hidden, particularly in sleek modern buildings. But you only have to glimpse the "inside out" profile of the Lloyd's Building in the City of London to see some of what normally lies under the skin. Even this jumble of pipes and ducts only tells part of the story.

A better guide comes every year in the landlord's service bill. Electricity, security, heating, cleaning, water and lifts suddenly become highly visible. A company which took great pains to knock £1 a sq ft off its rent on a building finds that the heating and air-conditioning maintenance alone has more than outweighed that saving.

In fact, the average service charge for air-conditioned buildings is running at more than £6 a sq ft, according to the annual analysis just produced by property consultants Jones Lang Wootton. Normally ventilated ones cost about £2 a sq ft less. That may represent only a fraction of overall costs, particularly in high rent and salary areas such as south-east England. But it represents an area for savings to occupiers who have struggled through

recession and still face tough competition.

One cause for concern is the fact that charges have risen between 6.8 and 7.4 per cent in the past year, according to J.L.W. Increases look even more shocking over 10 years: since 1983 charges have soared almost 80 per cent for air-conditioned buildings and nearly 100 per cent for others. But much of this can be attributed to more arduous demands from occupiers. Ignorance is fading as businesses employ more experts and grow to understand the impact of services on output. Manufacturers have always known that productivity varies with comfort. Today's office factories are no different.

One of the biggest advances in building services over the past 20 years has been in the air that occupiers breathe. "Standards have doubled," says John Miller, technical services manager for J.L.W. New city-centre blocks are sealed from the pollution and noise outside. Each now has a carefully balanced interior environment where the

temperature and air quality is in the hands of a machine.

A constant battle goes on between suppliers of different kinds of systems. Chilled ceilings, for instance, are currently touted as a cheaper alternative to the variable air volume (VAV) methods which became almost standard in the property boom.

"There are always fashions," says Kenneth Dale, president of REHVA, the European Heating & Air Conditioning Associations. He points out that chilled ceilings were being used more than 40 years ago and are common in continental Europe.

But the biggest battle is over whether to use any kind of air conditioning at all - an issue which is dealt with in more detail elsewhere in this survey. Energy-guzzling systems appear to be doomed as governments seek to control carbon dioxide emissions, and most technical advances are now taking place in making artificial ventilation more efficient and healthy.

The other big change in service systems

over the past 20 years has been in the technology. Office buildings in particular have been dragged into the electronic age. Almost every building today is laced with miles of cabling carrying power and information to desktop computers, printers, faxes, photocopiers and modems.

This has fundamentally changed construction methods. New buildings have deep floor voids to accommodate the cabling and hollow ceilings for the heavy-duty ducting necessary to draw off heat from the electronics. Older buildings are probed to find existing gaps for the services - or written off as obsolete.

"There was also a physical change as information storage moved from the filing cabinet to the computer disc," says Graham Love, head of project consultancy at J.L.W. In simplistic terms, that meant a move from concentrating on how much weight each square foot of floor will support to how much power it can provide.

This aspect has developed into another battle. Older buildings were under-powered; new ones are over-powered. "Ten years ago they could handle around 5 watts per square metre but this soared to as much as 40W in the boom," says J.L.W. development management partner Paul Boden.

But today's normal user requires only 15W/20W, and these blocks look embarrasingly overblown at a time when energy-saving is a priority. The British Council for Offices has brought out guidelines far below this peak.

The industry clearly went too far - an accusation commonly heard from building service engineers who feel they are rarely brought into the construction process early enough to point out such errors.

Over-powered buildings exist because agents said this was what the occupiers demanded. "But they were forecasting straight-line growth in power demands without taking into account that the tech-

nology would become more efficient," says Peter Marks who as head of property management services at J.L.W. now has the task of explaining big bills to occupiers.

Other "advances" in building services are less controversial. New technology has been harnessed to management, making control of various systems more efficient. Even the most modest warehouse can be fitted at a reasonable cost with computers which automate control of ventilation, temperature, access and safety.

The drive for energy efficiency started in the early Seventies with oil price increases but has continued to make ground through advances in areas such as boiler technology. Fire engineering has moved forward to cope with new demands such as enclosed shopping centres, the chimney-like properties of office atriums, and a host of new health and safety regulations - particularly from the European Commission.

The closest many occupiers get to perception of the machine around them is when they stray into the building manager's screen-clad hideaway after getting out of the lift on the wrong floor. But if the lift itself breaks down, they realise how dependent they are on this technology.

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**LANDIS & GYR**

The chief executive in charge of the most profitable parts of Europe's 13th largest company has recently been exiled to a simple corner desk in a noisy, computer-crammed, open plan office in Solihull near Birmingham. His office comes in a flimsy plastic cup, but only when he takes the time to go to the dispenser. When sitting at his desk his every word can be overheard by nearby workers.

Visitors seeing his plight could easily mistake him for the classic victim of a boardroom coup, sent packing from his serene riverside suite in London to a provincial outpost.

But Harry Moulson, managing director of TransCo, the pipeline and gas storage company at the heart of British Gas, is merely making a statement about cultural change at a company in the midst of a restructuring and re-orientation exercise of a scale and complexity rarely attempted.

Three years ago British Gas was a stable, some would say stuffy, monopoly utility steeped in a public service ethos. Today, after a series of government reviews and bruising battles with its regulator and would-be rivals, the chill winds of market competition are increasingly being felt. In particular, British Gas faces upheaval in its main domestic business and the prospect of a sharp drop in market share once competition is phased in, beginning in 1996.

The scale of the management challenge is formidable - "unlike anything ever attempted by a big multinational oil company," according to one industry observer close to the company. On top of a radical corporate restructuring - in which it will shed its integrated status, along with 25,000 jobs, a full third of its staff - the company is trying to secure a premier position in the rapidly evolving but intensely competitive international gas industry.

As Richard Giordano, its new American chairman and Cedric Brown, chief executive, emphasised last Thursday, however, a new structure and strategy are worth little unless there is a wholesale change in corporate culture.

For most of its history British Gas has been a deeply inward-looking, strongly hierarchical organisation, with as many as "13 management and supervisory levels between the chief executive and the guy who dug holes in the streets", according to Moulson, whose unit includes £19bn worth of gas pipeline and storage assets.

The hierarchical structure was built around semi-autonomous "gas generals", who ruled the 13 regions into which the UK business was divided. Many of the generals' lofty corner offices and private dining rooms at the regional headquarters now stand vacant, their occupants having fallen victim to the decision last March to disband the regional structure in favour of five national business units.

But have the bureaucratic, anti-competitive attitudes ascribed to the "old guard" withered with their passing? Many of British Gas's competitors remain sceptical. At least that is the message conveyed in their public statements aimed at the politicians who have yet to decide whether to put forward the legislation needed to turn the government's commitment to competition into a reality.

**Robert Corzine examines the dawning of a new age at British Gas as it faces upheaval in its main domestic business and the prospect of a sharp drop in market share once competition is phased in, in 1996**



## Fuel for a more fiery future

Others who deal closely with the company, including Clare Spottiswoode, director general of Ofgas, the company's regulator, insist that there has been a cultural change, at least at the highest levels.

She notes that senior executives in charge of the various business units often assume conflicting positions in negotiations with Ofgas, with, for example, the trading side of British Gas lining up against TransCo executives.

Spottiswoode, who believes cultural change at British Gas is a prerequisite to the effective introduction of competition in the domestic gas market, wonders, however, whether the competitive spirit is being embraced further down the ranks.

Senior British Gas executives share her concern. One recently commented that "middle ranking managers are scared to death" of the changes taking place. That is not surprising, given the fact that all employees are having to re-apply for their jobs as part of the restructuring.

But leading the rank-and-file to the new competitive world also lies in the face of the company's history.

"Employee empowerment" is hard to sell to a workforce which has spent the last 30 years in a

command and control environment," admits Moulson.

That style of management can be traced to Sir Denis Rooke, the strong-willed chairman who served from 1976 until he stepped down in favour of Bob Evans in 1989.

His tenure was marked by substantial technical and engineering achievements, not least of which was the £1bn (£570m) conversion of 12m households from manufactured coal gas to natural gas. At the time he described the programme as "perhaps the greatest peacetime operation in this nation's history". Sir Denis also helped to dispel public doubts about the reliability and safety of gas as a fuel by emphasising a "belt and braces" approach to business.

Such an attitude befits a company in which serious failures can literally blow up in management's face. But it also fostered a bureaucratic mentality and an aversion to risk-taking.

"To avoid risks, you put in lots of traps," says Moulson. He cites as an example the long paper trail that until recently accompanied even the most routine requests to authorise work on gas connections to commercial and industrial customers.

"There were 26 handover points for

the request, which took an average of 27 days to process."

That process has since been cut to six handover points within five days. But other examples of the "belt and braces" approach persist. A case in point is the Central Area Transmission System gas terminal on Teeside, where the first new connection to the high-pressure national gas transmission system in 10 years is to be built. In the initial talks with the terminals operators British Gas said it wanted to station a 10-person team in a separate building on the site to oversee the connector. When questioned as to why it needed such extensive facilities, British Gas simply said that was the way it had always been done.

Steady persuasion by its partners eventually resulted in the company acknowledging that the job could be done by one person sharing an office in the existing administration building. Breaking down such entrenched attitudes is a priority for the heads of the business units.

Moulson's decision to give up the private office and dining room may be a largely symbolic gesture, but it sends a message that the old barriers to communication between senior executives and their staff have come down.

"British Gas executives have tra-

ditionally not been very good at listening," notes Moulson. "They were much better at telling."

TransCo is well on its way to reducing the 13 management levels to just five or six. But not all of Moulson's attempts to break down internal barriers have succeeded. Many manual workers react to talk of "empowerment" with suspicion, even though Moulson tries to reassure them that it means nothing more than "having a go and trying different things".

Many senior managers can also be uncomfortable with the more open style. "All too often you ask someone what he thinks of an issue and the response is 'I can give you a paper on that,'" bemoans Moulson.

The emphasis on "openness" extends to TransCo's dealings with its customers, which include the trading divisions of British Gas as well as the 30 or so independent gas marketers. Last year many of the independents accused TransCo of deliberately hindering their operations in the industrial and commercial gas markets now open to competition. They believed it was part of a campaign to block wider competition.

TransCo executives say those problems resulted from the speed at which the competitors captured

market share and from shortcomings in a technical system which have now largely been overcome.

They also claim that the new commercial culture at Solihull has eradicated the doubts and suspicions of all but a handful of the independents. They concede, however, that many independents are less sure that the anti-competitive attitudes have changed at the district level.

The transition from a cosy monopoly to the competitive market may be even more wrenching for the 8,000 or so staff employed by Public Gas Supply, the Staines-based business unit which will have to compete head-on with the independent gas marketing companies when the domestic market of 18m households is liberalised later this decade.

Mike Alexander, the PGS chief executive, is also cutting out many layers of management. But unlike his counterpart at TransCo, whose workforce will remain relatively stable, Alexander will have to slash personnel numbers in order to come anywhere near to being competitive with the independents.

The need to cultivate a more commercial approach among PGS staff is if anything more urgent, given the fierce competition expected from would-be rivals.

In addition PGS, whose main function is to handle routine customer accounts and complaints about their bills, is unlikely to find stability at the end of the restructuring exercise.

Anne Hemmingsway, head of the Southampton-based Southern division, says employees often tell her what a relief it will be when the current round of uncertainty over jobs and structural changes is behind them.

Her answer, she says, is always the same. "What makes you think its going to settle down?"

Senior PGS executives concede that instilling commercial attitudes in people who freely admit that they joined British Gas for a quiet, orderly office life and job security will not be easy.

"Our task is to get people buzzing," says Hemmingsway. That "buzz" is evident among the first supervisors in Southampton chosen to undergo a course that will help them to "allay the fears and stop the panic" among their more junior colleagues.

In recent weeks they have spent most of their time in a room plastered with posters extolling the virtues of customer care and employee empowerment. They acknowledge that it may be a problem to persuade many junior staff to take responsibility for even simple tasks, let alone convincing them to take advantage of customer contacts as a possible "selling opportunity".

They also agree that many of their middle-ranking management colleagues may not make the transition from supervisory roles to one in which the emphasis is on "coaching, counselling and assessing".

It will be some months before executives know if the change in attitudes which such words imply will take hold. There is little doubt, however, that British Gas has at least begun the "complete and radical transformation" of the culture which Cedric Brown last week identified as a key to future success.



### PIONEERS AND PROPHETS

**Frederick Winslow Taylor**

Engineer, inventor, consultant and tennis champion, Taylor gave his name to what was probably the first true international management movement.

Many of the Philadelphia Quaker's ideas on productivity and the organisation of work have been discredited since his death in 1917. But the influence of Taylorism can still be felt in modern management theories, not least the currently fashionable business process re-engineering.

Taylor was obsessed by efficiency and measurement and set out to prove scientifically that a machinist, for example, could produce a specific quantity of output in a given time. At Midvale Steel Works - where he became chief engineer in the 1880s - the jobs of foremen were redefined and a set of clear procedures established for certain jobs. Stop watches were distributed to the foremen as Taylor attempted to break down the work into its component parts (an essential feature of latter day BPR).

In *Principles of Scientific Management* (1911) - a book based largely on his experiences at Midvale and later at Bethlehem Steel and the most quoted source of his ideas - Taylor argued that scientific methods should replace the old rule of thumb ways in which workers operated; that workers should be scientifically selected to be "first class" at a particular task; and that work should be equally divided between workers and management.

Taylor was also one of the first to develop the idea of payment by results, introducing differential piece rates and achieving significant cost reductions in the process. As John Mages, senior lecturer in Operations Management at Cranfield School of Management, points out, however, this part of the legacy is less appreciated today. "Taylor put the emphasis on output rather than quality."

Taylor's "top down" thinking and tendency to think of employees mainly as pairs of hands are also out of favour. He was never flavour of the month with the trade unions, one of whose US leaders claimed that "no tyrant or slave-driver in the history of his most delirious dream ever sought to place upon abject slaves a condition more repugnant". Lyndall Urwick - an army officer who read *Principles* in the first world war trenches and was inspired to found a movement for scientific management - remarked that the strength of the union movement prevented Taylorism from being fully implemented in Britain.

Historians like Peter Drucker maintain Taylor started out with well-intentioned social rather than engineering or profit motives, and improving workers' living standards was one of his central aims.

Taylor's talents were undeniable. He was a prolific inventor, taking out over 100 patents for ideas. He won the US tennis doubles championship in 1881 and succeeded in getting the rules of baseball changed by proving that over-arm bowling was more effective than under-arm.

This is the first of a new series.

Tim Dickson

## Mother knows how to manage best

I have just been sent some research by a pair of US doctors, both called Rick, and both world experts on how to cope with difficult people at work. As I read through the tactics they recommend for procrastinators, bullies and whiners, I felt an odd sense of déjà vu.

The account reminded me of another book, one which belongs not on the management shelves but with the books on yoga and child-birth. It is a slim volume called *Getting on with Your Children*. All the management techniques are in it, and all are applicable to difficult workmates and to easy ones too. There are sections on the destructive power of criticism, the importance of praise, the need to listen, and on learning from mistakes. Its account of how to make your children independent and responsible could be transcribed word for word into one of those new books on empowerment.

Admittedly, the analogy is not perfect: it is not usually appropriate

to cuddle your workmates, nor can you confine your colleagues to their cots when they become too tiresome. Equally you cannot fire your children; or expect them to increase your family's revenues.

Still there are enough parallels to suggest that the best managers may not have had years in the boardroom and been on all the right management courses. They may be mothers who have successfully brought up large numbers of trying children. Anyone who can deal with a manipulative three-year-old or a two-year-old throwing temper tantrums will find even the worst varieties of awkward behaviour in the office a piece of cake.

For over three decades management experts have been preaching ways of making meetings more efficient. Yet so far their advice has not made a jot of difference: the average manager still spends 40 per cent of every

day in meetings, and still complains that most of that is a frustrating waste of time.

Fresh from the US comes a radical solution - the "open space" meeting. This turns all the old advice on its head. Instead of sticking to an agenda, the agenda is dispensed with altogether. Instead of keeping the session short, these meetings last at least a day, and possibly three. Far from paring numbers to the minimum, everyone is invited - 700 people would not be considered too many at an open space gathering. During the meeting anyone can pin up their ideas on a board and those who agree can

sign up to them. The session may then be subdivided into "workshops" so that the ideas can be thrashed out in more detail. According to Wikima Consulting, which is attempting to import the idea into the UK, these meetings encourage "unparalleled creativity, motivation and commitment". Apparently they allow companies to be rebuilt and conflicts to be resolved.

There are some peculiar management practices about, but this one takes the biscuit. The Presbyterian Church in the US and the World Bank are great fans of the open space meeting. But then one organisation has faith, and the other is in

such a bureaucratic muddle (a former employee said in the FT last week that board members were "mushrooms - kept in the dark and fed on garbage") that any change is likely to be an improvement.

Some time ago I wrote about employees' evenings, strange occasions at which workers gather with their bosses for a question and answer session over a drink and a few peanuts. Here is an even odder concept: the customers' evening. If you bank with Lloyds, you may have already received an invitation to visit the local branch after hours, for a glass of wine and the opportunity to tell them how you feel about the new open-plan branch layout.

I can't think of anything I would like less than to spend a precious evening visiting my bank to discuss whether the lighting is too bright or too dim. Fortunately I am a customer of First Direct, so the question of lighting and comportment of

branch staff does not arise.

Yet it seems I am in a minority with my stand-offish attitude. So far Lloyds has held over 1,000 of such evenings, making these branch booze ups one of the most popular nights out across the country.

The bank says that perfectly normal people turn up: all ages, classes and colours are represented, not just the people who write to newspapers in block capitals or in green ink.

Surely all these people cannot be motivated by the free drink, nor by the desire to see the other side of the cashier's glass screen. It seems our banks have a special hold over us. Because they have the knack of making our lives difficult by messing up our affairs and overcharging us, only to be unbelievably slow to rectify matters, they turn the most laid back person into a first rate moaner. There is a pleasure to be had in complaining to the right person, so perhaps an invitation to make a night of it is not to be scoffed at.

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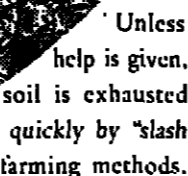
	Mon	Tue	Wed	Thur	Fri
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Hong Kong	30	29	29	31	30
London	12	12	12	15	15
Frankfurt	17	10	9	11	12
New York	16	16	18	13	13
L. Angeles	22	22	21	23	21
Milan	22	21	23	24	23
Paris	15	12	13	14	13
Zurich	17	11	9	10	10


Maximum temperatures in Celsius

Source: *Weather Bureau of the Netherlands*

## More Choice in ex-Soviet states

St Petersburg, which is expected to attract 3.5m visitors next year, has about 30,000 hotel beds. But fewer than 3,000 of the city's hotel rooms, says Choice, are up to international standard.



  
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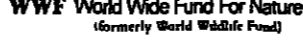
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## MEDIA FUTURES

# Magic market for Microsoft

The world's biggest software company has a mission to 'edutain', writes Alan Cane

Bernard Vergnes, president of Microsoft Europe, describes his ambitions in multimedia carefully. Without wanting to appear arrogant, he says, he wants to be the leading supplier of educational and other programmes - sometimes known as "edutainment" - published on CD-Rom. These are the building blocks of the multimedia revolution.

Microsoft, the world's largest software company, helped pioneer the genre in 1992 with *Musical Instruments*, a CD-Rom ideally suited to demonstrating the combination of text, video and quality sound which characterises multimedia presentations.

Today, *Musical Instruments* still impresses but looks dated compared with newer offerings such as *The Magic School Bus*, a series to be released shortly. It is said to be Microsoft president Bill Gates' current favourite, and features a yellow US school bus with driver and passengers which can be shrunk to navigate through the digestive system in *The Human Body* or the cosmos in *The Solar System*. Microsoft's best-selling *Dinosaur* of 18 months ago included five moving video clips; *Dangerous Creatures*, a new release, has more than 100.

Vergnes, who has worked for Microsoft since 1983 and has been its European president since 1990, believes that the domestic market for CD-Rom is about to expand rapidly, espe-

cially in Europe. He reckons that personal computers equipped for multimedia will reach the "magic price" this Christmas at which substantial domestic sales can be expected. He defines that price as just below £1,000 in Britain or FF10,000 in France. For this, customers will get a PC built around a high-performance Intel 486 or "Pentium" chip with 16 megabytes of fast memory and a 300-megabyte hard disc together with a CD-Rom player and sound capabilities.

In France, he says, some 25 per cent of PC sales are now through supermarkets. Carrefour, the large French chain, is marketing its own range of five models, some of which can handle multimedia.

Microsoft is taking the home market seriously. It has some 500-600 people, including educationists, psychologists and software specialists, in its consumer group, and is spending just under \$100m a year on developing new titles. Sales are about \$300m a year.

In total, Microsoft spends about \$600m on research and development, most of it on software, which brings a much greater financial return. "We are over-investing for the future in these areas," says Vergnes.

Success in consumer markets is critical to Microsoft's

plans. Its worldwide sales - \$4.7bn (£2.97bn) last year - comprise desktop applications, PC operating systems, word processors, spreadsheets and database managers. Revenue growth last year was 24 per cent.

However, Vergnes admits that "the traditional PC software market will not grow for

**A new offering features a school bus which can be shrunk to navigate through the digestive system**

ever. One day, probably sooner rather than later, most desktops in developed countries will have a PC with a complete suite of business programs."

The company plans to reach sales of \$8bn by 1995-96, but Vergnes says the extra \$3bn will not come entirely from desktop applications. "Unless we make at least \$1bn from consumer products, we shall not achieve our target."

He is encouraged by research showing that each professional PC installed leads to purchases of - on average - five software packages during its life. But up to 15 purchases of software a year can be expected for

domestic PCs if the price is right. The consumer software division is turning out three new titles a month.

The competition is not sitting idle. Microsoft's principal competitors, Lotus Development Corporation and Novell, have their own consumer products divisions. Recently Novell, the market leader in networking, announced a series of home education CD-Roms focusing on reading, writing and arithmetic.

Microsoft's ambitions in multimedia, however, range across the board. It is spending about \$120m a year on software for the digital superhighway through its advanced consumer technology research group, an elite operation headed by chief technologist Nathan Myhrvold and reporting directly to Bill Gates.

Microsoft interprets the highway as an electronic pipeline into each home able to convey an almost limitless stream of information. Database computers or servers provide the data which is unscrambled by a black box on top of the television set. Earlier this year Myhrvold's group announced a "Tiger" video server software which Microsoft says is the first phase of a complex, interactive video system.

It runs on conventional personal computers. According to

Vergnes: "We believe that traditional PC technology will develop fast enough so that we can build these servers from inexpensive hardware. We can share the processing load between the network server and the set-top box which, after all, is only a powerful personal computer."

There is, thus, a close similarity between Microsoft's model of the information superhighway and the modern data-processing concept of client-server computing where server computers provide data to a network of PCs.

Microsoft's latest operating software, Windows NT, is intended to manage client-server networks. Indeed, Vergnes believes that business will be first to find applications for the information superhighway, with domestic applications following later.

He echoes Bill Gates's complaints that most multimedia trials involve only video-on-demand (VOD) - the ability to call a video of choice to the TV screen. While technically complex, he does not believe that VOD is a true test of demand for multimedia services.

In consequence, Microsoft's own trials - to be held with the US company TCI in Denver and Seattle next year - will be sophisticated and involve a range of services. Example: Vergnes envisages an education forum where teachers from a broad range of schools and colleges could exchange views and experience.



Preparing for the multimedia revolution sometimes seems like putting a bucket outside and waiting for a rain-storm to fill it; you can vary the size and shape of the bucket, but you can't do much to encourage the rain.

The bucket which has just been put out by Olivetti, the Italian computer group, is called Olivetti Telemedia, and the parent company is frank about its early prospects.

"We have an idea of the supply [of products and services], but we don't yet know what the demand will be like," admitted Elisirio Piol, Olivetti's deputy chairman, at Telemedia's launch two weeks ago, although he ventured a figure of \$3,000bn as the poten-

tial size of the worldwide information market.

In fact, Telemedia is a grouping of the Italian company's existing receptacles for multimedia and telecommunications - including a number of small international joint ventures but excluding the mobile telephone venture, Omnitel-Pronto Italia, in which Olivetti has a large stake.

Those ventures include some which have been quietly working on multimedia innovations for the last few years, and others formed only in the last few months.

Thus the June alliance

## A monsoon that must not be missed

Andrew Hill on the regrouping of Olivetti's multimedia side

between Olivetti and Hughes Network Systems, a subsidiary of General Motors of the US, to exploit the market for business satellite communications in Europe now comes under the Telemedia umbrella.

So does the joint venture with Redgate Communications of the US, announced in March, to produce electronic catalogues. But Telemedia will also include Seva, the data services company set up in 1985, and the company's well-established R&D operations in

Pisa and Cambridge, among others.

New operations are being added bit by bit. Last week, for instance, the Italian company formally launched Italia Online, in collaboration with Italy's business daily Il Sole 24 Ore, to provide personal computer users with access to databanks worldwide.

Aware of the risks of developing a high technology system while neglecting the software, Olivetti has also taken on Grant Perry, a presenter

with CNN, the cable television network, as head of new media initiatives to scout out innovative programming for Telemedia.

At present, Olivetti describes Telemedia as "a virtual company" - a network of autonomous ventures with a common aim, which can be easily adapted to the challenges ahead - and for the moment Telemedia will make only a small virtual profit for Olivetti.

In 1994, Telemedia's components expect to turn over only

L325bn (£132m), 40 per cent overseas, which compares with the group's turnover last year of L8,612bn.

Piol talks in terms of an initial investment of \$50m (£32m) in Telemedia, compared with the \$20m which Omnitel's shareholders will pump into the cellular telephone venture over the next four years.

This does not mean that Olivetti's commitment to the multimedia sector is half-hearted, but the company is still hamstrung, according to the com-

pany, by regulatory obstacles. Carlo De Benedetti, Olivetti's chairman and chief executive, rarely misses an opportunity to press publicly for further liberalisation of the telecoms sector and development of Europe's IT infrastructure, and Piol takes up the same theme.

"At the moment there is not much scope to invest because of the regulatory environment," he said. Deregulation means breaking up monopolies and creating a "pluralistic, competitive market for networks and innovative services," according to Olivetti, and focusing regulatory efforts

on the distribution of scarce frequencies and the protection of free competition.

From the point of view of income, Telemedia and Omnitel-Pronto Italia are still two empty boxes in a group structure still dominated by computer products, systems and services.

But after two to three years of drought in the international computer market, the Italian group knows that it cannot afford to miss the forecast \$3,000bn multimedia and telecoms monsoon.

As De Benedetti said in his report to shareholders earlier this year: "Converging information technology and telecommunications is the new, immense fast lane where Olivetti intends to operate."

## ARCHITECTURE

## A shiver of excitement

Will the lottery change the face of Britain, asks Colin Amery

"I strongly believe man cannot live by GDP alone... I would like to see everyone in this country share in the opportunities that were once available only to the privileged few."

Those were not the words of Labour leader Tony Blair but of prime minister John Major when he opened the English Heritage conference last month. He was not talking about a radical re-arrangement of government spending plans but pinning his hopes on the success of Britain's national lottery, starting next month, which is expected to produce billions in revenue.

Part of these proceeds will be spent in five different areas, the five "good causes" - arts, sport, national heritage, charities and a fund to mark the millennium. John Major is optimistic that enough ideas will be forthcoming for ways to celebrate the millennium, and that "a wave of creativity will be unleashed".

What is curious about the whole lottery process is that what has been unleashed so far is a wave of bureaucracy and a cascade of commissariats, commissions and committees.

There is also much uncertainty. Who will make the awkward choices about criteria and quality that will determine the success or failure of an application for lottery funds?

In fact, it all comes down to the five godfathers of the lottery: their views and opinions are going to count, as are their prejudices and preferences. The five godfathers are Lords Gowrie and Rothschild for arts

and heritage; David Seiff for charities; Rodney Walker for sport; and Stephen Dorrell, who has the awesome responsibility for the millennium.

These five wise men will all receive more petitions and more advice than they can sensibly stand. Their offices have already started to grow and all five have spent a great deal of valuable time at seminars and struggling to establish the best possible criteria to guide applicants for grants.

None of them has been particularly effective about letting the public know what is going on, and none of them seems quite clear about the role of the Office of the Lottery, inevitably known as Oflot. Presumably Oflot will keep an eye on Camelot, the commercial operator of the lottery.

What is clear is that the cash is to be spent on capital projects and that each project is expected to raise matching partnership funding. This is a likely area of difficulty.

Mainly, capital projects means buildings, and there is a shiver of architectural excitement running through the profession at the prospect of an end to the drole queues of architects and builders.

It seems to me that while the heritage world will acquire funds to save more buildings and more collections, the people who are really going to have the most fun are the nine millennium commissioners who are engaged in what their

founding minister, Peter Brooke, called a "unique golden opportunity to mark the year 2000 in grand style".

Brooke was also rash enough to talk about providing additional landmarks of very high quality. "Landmark" is a dangerous term that is beyond definition, and the new minister who chairs the commission, Stephen Dorrell, does not seem quite so keen on it.

The nine commissioners are a curious bunch. Heather Cooper is a lady astronomer; Richard Dalketh will one day be the 10th Duke of Buccleuch and Queensberry; Robin Dixon is a bobsleigh champion and Northern Ireland businessman; John Hall built a successful but hideous shopping mall called Metroland in Gateshead; Simon Jenkins likes architecture and once edited *The Times*; Michael Heseltine wanted to be prime minister and now runs the Department of Trade and Industry; Michael Montague is a businessman appointed to represent the political opposition; and Patricia Scotland is a barrister and former member of the Race Relations Committee of the Bar General Council. Their chairman, Stephen Dorrell, is secretary of state for national heritage.

You are definitely missing out if you have not received a personal visit from one or all of these commissioners.

They were described by their own office - rather charmingly - as "a panel of informed amateurs", and they are all desperate not to be responsible for

the sanctioning of any white elephants. They see themselves as the heirs of the Victorians who built the Great Exhibition in 1851 and of the quiet socialists of the 1950s who built the Festival of Britain.

They are rather anxious not to be seen to be creating monuments. They are much more likely to fund the planting of a forest or the protection of a species than build a cathedral to mark the 2,000th Christian year.

The national mood - I cannot speak for Michael Heseltine, who has a strong streak of megalomania - would seem to be against monuments, and especially against monuments to the egomania of architects.

The Eiffel Tower in Paris marked the centenary of the French revolution and Sydney's Opera House was funded by a lottery. There have been hundreds of great expositions since 1851. But the number of successful un-political monuments in the world is very small.

By the end of next month you will be able to fill in an application form for a grant for your very own millennium project. But the guidelines are not quite prepared.

The last millennium in England was presided over by Ethelred the Unready. With such a short time to go, will there be time for the commissioners to come up with something really inspiring that could change the face of Britain for ever? The whole thing is indeed a lottery.

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An example for Britain: Australia's Sydney Opera House was paid for by a lottery

## PEOPLE

# King of Soya – and Nightclubs

Olacyr de Moraes, Brazilian entrepreneur, tells Angus Foster he wants to live a little

The great American industrialists of the last century started empires based on railways, agriculture and construction. Olacyr de Moraes has gone one better and in a different continent: one of Brazil's most powerful businessmen, he has built an empire spanning all three.

In little more than 40 years he has turned his main company, Grupo Itamarati, from a tiny transport firm into a sprawling conglomerate with an annual turnover of more than \$1bn. Known in Brazil as the King of Soya, he is the world's biggest private producer of soyabean.

He owns one of the country's biggest construction companies. He is building a private railway, which could eventually stretch for 3,000 miles and which he hopes will open up Brazil's interior.

And now, at the age of 63, he is investing in telecoms, banking and power generation.

Despite all this, meeting de Moraes is a bit of a surprise. Expecting a strutting tycoon surrounded by maps of his dominions, the visitor finds, instead, a quiet, initially shy man who easily could be mistaken for a provincial bank manager.

And there are contradictions. Despite his (presumably) enormous wealth and the success of his businesses, he does not seem content. Recently divorced, he has earned another nickname – King of the Nightclubs – because of his relationships with very pretty, much younger girlfriends.

"When you are single, you come to the conclusion you need to live a little," he says. "Why should I live the life of a monk? I am still working the same amount as before with the same responsibilities. Our businesses have never done as well as they are now. In fact, I think going out with beautiful women brings you luck." His son, Marcos Augusto, 27, is

Paulo state, he started in business in 1947, running a small delivery company in São Paulo with his father. Its clients were mainly in construction; in 1957 after his father's death, de Moraes decided to enter the industry as well.

His construction company, Constran, started with small projects, such as building roads and housing. As economic growth accelerated, construction became an important sector for successive democratic and military governments. Constran prospered under both, and grew into one of Brazil's biggest private companies.

From 1988, some of the profits from construction were diverted into agriculture. Enormous mechanised farms were developed in the south-western states of Mato Grosso and Mato Grosso do Sul, at that stage thought to be too far from Brazil's main markets to be viable. These farms, up to 250,000 acres in size, needed irrigation and soil correction to reduce acidity. Once prepared, however, they became extremely productive and Itamarati moved from wheat to soya and cattle and sugar.

According to his public relations résumé, de Moraes built Itamarati "with the talent and keenness of a great entrepreneur who has never hidden the satisfaction that he has made an important contribution to the economic and social development of Brazil".

In person, the King of Soya tells it slightly differently. "I've been successful because of hard work. I started working when I was 12, always on Saturdays and Sundays. It wasn't always wonderful. It was extremely difficult. I worked hard."

He says his main job now is to select the managers for each division rather than being involved in day-to-day decisions. "Each division is now highly professionalised." His son, Marcos Augusto, 27, is

being groomed to take over the group and is at present overseeing investments in telecoms and a satellite joint venture.

Itamarati is still wholly family-owned, and de Moraes sees no chance of that changing. "It is a very big group and there is always some need for one part to help another. For instance, profits from agriculture have gone towards the infrastructure interests. We can do this because we are flexible. It would be difficult if we had outside shareholders."

The group will enter new businesses by providing some capital, but also rely on joint venture partners for skills and finance. Infrastructure projects, including telecoms and power stations, are key growth sectors for de Moraes. He believes Brazil's government will be forced to withdraw from areas of the economy it traditionally saw as strategic.

Later this year, for instance, the company will start operating two hydro-electric power stations, a business which until 1990 was closed to the private sector. "The government no longer has the money to invest in areas like telecommunications and energy. Public opinion is changing too, and not just in Brazil. Where there is opposition, it comes from employees of the state-owned firms or from companies wanting to keep their privileges. But the Brazilian people have matured and the businessmen have changed, too. Today, there is a growing realisation that we have to lower costs and become more competitive."

Itamarati's largest infrastructure project is also one of Latin America's most ambitious. The company is building the Ferroeste railway which would connect southern Brazil by rail to the Amazon and to interior states where existing links are very poor.

The first section will run 200 miles inland from São Paulo state and is due to open during



the first half of 1996. Itamarati has provided more than half the \$625m needed for this.

Future stages would require more outside financing. Eventually, the railway could carve through northern and western Brazil, at an estimated cost of \$2.5bn, and Itamarati estimates, make 2m sq km of farm land more accessible.

De Moraes says he is now too old to consider a serious move abroad. He is also convinced that there are better opportunities in Brazil and that the country will soon stabilise its economy and rediscover growth. A new currency, the real, was launched last July and has led to a sharp fall in inflation, which had reached 50 per cent a month.

"The real has given people a glimpse of what it would be like to have a stable Brazil," he says. "The country managed to grow even when there was economic chaos. So imagine what could happen if we had stability; I think we would have enormous development."

Stability is a dream that he and countless other Brazilians have long harboured. But the chaos in their lives has not deterred their patriotism.

"If I could start again knowing what I know now, I'd be 50 times richer," he says. "But I'd do it again in Brazil, which is still the best country in the world from my perspective. It's just that the people are no good!" he says, laughing for the first time.

Outsiders are sceptical about how far the railway will stretch, especially given Brazil's habit of announcing huge



## Maverick hunter of Swiss banking

Martin Ebner, the maverick Swiss stockbroker who is trying to take control of Union Bank of Switzerland, the country's largest bank, was recently referred to as the 'George Soros of Switzerland'.

It is a fairly apt comparison. Such is the 49-year-old Ebner's reputation for making big money for his clients that when he launched a new investment fund last April – even in the midst of a Swiss stock market slump – he pulled in SFRbn within a couple of weeks.

Like Soros, he can also lose big sums. That fund launched in April, called Stillhalter Vision, has just reported SFR340m in unrealised paper losses in its first five months of activity.

But over the nine years since he left state Bank J. Vontobel in Zurich, to prove that the Zurich market was ready for a professional block trader, Ebner has been phenomenally successful, both for himself and the dozen or so institutions and wealthy individual clients he serves.

His broker-dealer BZ Bank, now one of the biggest players in the Swiss market, achieved a profit of SFR161m last year, with a staff of only 19. BZ Trust, his asset management arm, has some SFR10bn under management.

Ebner personally may now figure in lists of Switzerland's richest people, but he remains an outsider by choice, refusing to join the Swiss Bankers Association or to hobnob with Zurich's financial establishment.

Friends and foes alike concur that Ebner has an extraordinary nose for market trends. "A genius," his former boss Hans-Dieter Vontobel says.

And he is widely respected for his willingness to take big risks – which he does every day as a block trader in Switzerland's relatively illiquid equity market.

But his advance on UBS has startled many. It is the first time he has shown a taste for political, as well as financial, risks.

## Henry's growing hospitality

Saudi Arabia's Prince Al-Waleed bin Talal limited his comments on last week's purchase of a 25 per cent stake in the Four Seasons hotel chain to a couple of plain-vanilla sentences in a press release, writes Bernard Simon.

He left the rest of the explaining to Chuck Henry, a former investment banker who has emerged as chief dealmaker in propelling the prince into a sizeable player in the international hospitality industry.

Henry, 41, describes himself as "a consultant with a single client". He met Prince Al-Waleed a year ago, while he was a director with CS First Boston's hotel and real-estate division, which was advising Accor, the French group, and the prince on their (ultimately unsuccessful) bid for the Meridien hotel chain.

Henry set up his own company, Hotel Capital Advisers, in New York last July. He will supervise the prince's investment in Four Seasons.

It will come as no surprise if Henry emerges as one of the Saudi's two nominees on the Four Seasons board. "It's the hope of any investment banker to stop being a middleman and start being a principal," says Henry.

The Four Seasons deal comes on top of the 37-year old prince's investments in Citicorp and Euro Disney, among others, which fit his preference for capital-intensive, global businesses with strong brand names.

Henry also spearheaded the purchase last July of a 50 per cent stake in Fairmont Hotels, a smallish, San Francisco-based chain.

According to Henry, Prince Al-Waleed's nose for the hospitality industry was sparked two or three years ago.

"A lot of people" approached him to buy hotel properties during the recession, when real-estate – especially hard-hat hotels – were out of favour with investors.

The Four Seasons deal is unlikely to be either the prince's or Chuck Henry's last foray into the hospitality industry; Henry says more are in the pipeline.

## Ford's Devine gear-change

John Devine must be something of a stranger at Ford's headquarters in Dearborn, Michigan, writes Richard Waters.

In the last 17 of the 27 years he has been with the US motor company, Devine has spent only six months in Dearborn. Last week, though, he was propelled into Ford's top management team as chief financial officer.

His rise comes from an unlikely direction. For the past six years he has been head of First Nationwide Bank, an underperforming savings and loan subsidiary, which Ford is in the process of selling. First Nationwide is the US's fifth-biggest S&L, having grown rapidly under Devine. However, it hasn't turned a profit for three years – unlike the auto maker's other, highly profitable financing and credit card units.

"Financial services have been a good business for some time – but the regulated banking business wasn't a good one for Ford," says Devine.

He is not specific about what went wrong, saying only that a highly-regulated industry like banking did not fit Ford well.

Prior to the First Nationwide interlude, Devine's résumé bore all the hallmarks of someone who was being prepared for higher things. He had spent time in Europe, where he rose to become controller of product development in 1981, and Asia, where he became president of Ford's Japanese business in 1986.

Given Ford's declared intention of integrating its different regional operations, that experience should certainly help.

Meanwhile, says Devine, there is one underlying objective: "We want to keep the profit momentum up – we don't want any let-up."

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## CONTRACTS & TENDERS

### PRIVATISATION OF THE TELECOMMUNICATIONS COMPANY OF GUINEA

The Guinean Republic has decided to privatise the Telecommunications Company of Guinea (SOTELGUI) through foreign private investment. This company has the monopoly of public sector telecommunications in Guinea.

The international request for proposal is aimed at companies, or groups of companies, with previous experience in the management of a public sector company in this field.

Tender documents and further information can be obtained from:

La Division du Portefeuille du Ministère des Finances Direction Nationale des Marchés Publics et du Portefeuille de l'Etat Avenue de la République, face à l'Hôpital Ignace DEEN BP 2006 Conakry - GUINEAN REPUBLIC Tel: (224) 41.33.97 Fax: (224) 41.42.20

It is also possible to obtain further information from Arthur Andersen, advisor to the Government, addressing enquiries to:

Mr. David DARBYSIRE (Arthur Andersen London) 1 Surrey Street London WC2R 2PS Tel: (44) 71-436.5731 Fax: (44) 71-436.5990

Mr. Armand CASALIS (Arthur Andersen Paris) Tour Gas - Cedex 13 92082 Paris la Défense 2 Tel: (33) 1.49.01.32.67 Fax: (33) 1.42.91.09.90

The tender closing date is 30 November 1994 in view of a privatisation that will take effect 1 January, 1995.

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**LONDON COLISEUM**  
Ever since Chappellin first sang the role, every operatic boss has wanted to play Don Quixote. On Saturday, for its second production of the season, English National Opera brings Massenet's "Don Quixote" to London for the first time since 1912. A popular story, plus a subtle blend of comedy and sentiment, has made this opera one of the composer's most enduring successes. The producer at ENO is Ian Judge and the conductor Emmanuel Joel, with Richard Van Allan, singing at the windmills in the title role.



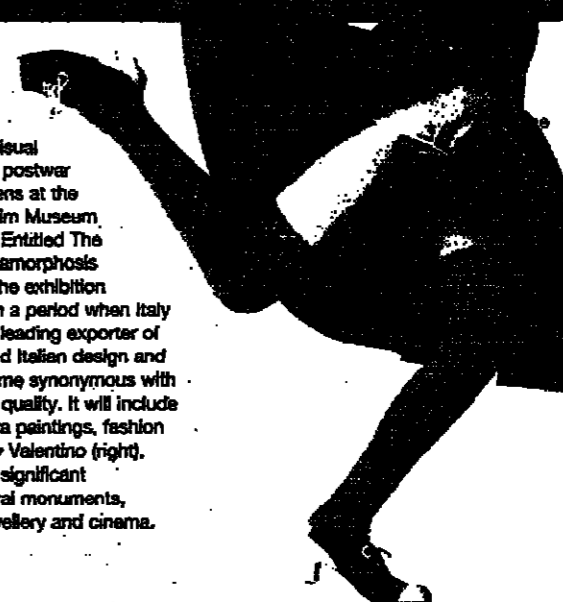
the orchestra rents from the Vatican, has just undergone a \$1.5m refurbishment, including acoustical adjustments.

**ROME**  
Carlo Maria Giulini conducts the Orchestra dell'Accademia Nazionale di Santa Cecilia tomorrow at the gala re-opening of the Auditorio di Via delle Concilienze, Rome's main concert hall. The building, which

**COPENHAGEN**  
The distinguished Danish choreographer Flemming Flindt has turned his talents to opera for the first production of the new season, at the Royal Theatre. He is staging the Danish premiere of Prokofiev's *The Love for Three Oranges*, which opens on Friday. The conductor is Jan Latham-Koenig, and the cast includes Mikael Mølby and Inger Dam Jensen.

**LONDON WEST END**  
Jeremy Sams is winning a reputation as the rising Renaissance man of British theatre. He writes music (see "Arcadia"). He translates the recent "Les Enfants Terribles" and English National Opera's revival of "The Magic Flute". And he directs. His recent staging (and adaptation) of the Chabrier opera "Le Roi malgre lui" has just entered Opera North repertoire; his staging of "Neville's Island", by Tim Firth, was a hit at the Nottingham Playhouse this January and opens at the Apollo Theatre, Shaftesbury Avenue, tonight. Quite a range for a man who only began directing in 1982.

**NEW YORK**  
A survey of Italian visual arts in the postwar period opens at the Guggenheim Museum, on Friday. Entitled *The Italian Metamorphosis 1943-68*, the exhibition focuses on a period when Italy became a leading exporter of culture, and Italian design and style became synonymous with innovative quality. It will include Arco Povera paintings, fashion designs by Valentino (right), models of significant architectural monuments, artists' jewellery and cinema.



## In defence of theatre

Director Richard Eyre warns that the creeping virus of opportunism has infected one of the great glories of British cultural life

There are a lot of good reasons for not going to the theatre. For a start, you have to turn up on time and sit in the dark without talking for longish periods. I know many people who find this an insupportable restriction of their freedom. I once spoke to the financier James Goldsmith in the hope of luring him into sponsoring a play at the National Theatre. "I never go to the theatre," he said. "My legs are too long."

And I have a friend, a film director, who hates going to the theatre because it is all in wide-shot. Many people prefer the cinema for its solitary, dreamlike disengagement. John Updike says: "I've never much enjoyed going to plays. The unreality of painted people standing on a platform saying things they've said to each other for months is more than I can overlook."

For me this is missing the point; it is the re-creation that animates the art and makes it unique. Theatre will always be unfashionable because of its form, its need for order, its narrative and its structure, and it will always lag behind a society that is conspicuous for its formlessness. The theatre's concern with the frailty of being human will always look defenceless when set against *Mad Max III*, *The Exterminator*, or the confident certainties of politics or journalism.

What I like about the theatre is precisely what some people hate about it. I like being made to concentrate. I like the fallibility that goes hand in hand with its immediacy. I like the fact that it happens in the present tense, that it is vulnerable and it is changeable. I like its sense of occasion, the communal event going in as an individual and emerging as part of a group. I like sharing time with strangers: a beginning and an end, a sense of birth and a sense of death. And I like the singular combination of magic and moral debate.

There is no art that uses time, space, gesture, movement, speech, colour, costume, light and music in the way theatre does. It thrives on metaphor: things stand for things rather than being the thing itself, a room becomes a world, a group of characters a whole society. Theatre invokes the astonishment of the unreal and the strange, magnified proportions that occur naturally in childhood.

The British are supposed to have

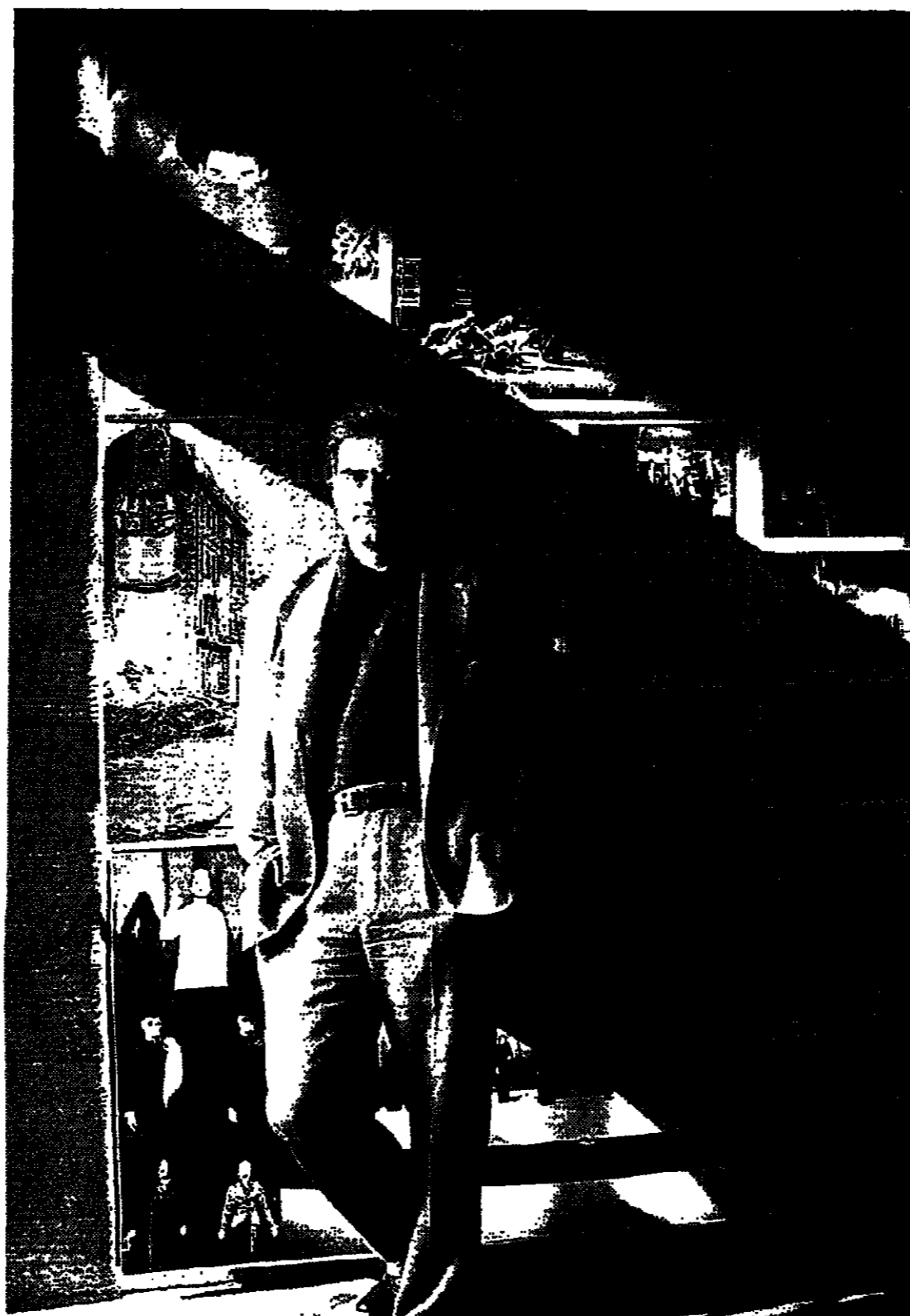
the finest theatre in the world, perhaps because so many of the characteristics of the nation coincide with characteristics of the theatre. The theatre exploits ritual, processions, ceremonies, hieratic behaviour and dressing up; it depends on adversarial conflict, the stuff of our parliamentary and legal system, and it is concerned with role-playing, which is second nature to a nation obsessed with the signs and manners of class distinction, and inured to the necessity, as a nation and as individuals, of pretending to be what you aren't.

But today the theatre's ecology and economy have started to resemble those of the country as a whole; it has become infected by the virus of opportunism. A kind of impatience has grown: actors and directors who might previously have been content to do a year or two in a repertory theatre have begun to look anxiously for jobs in TV, in films, or the national companies, and the previous de facto form of apprenticeship for actors in smaller repertory theatres has started to disappear — as has the unspoken sense of shared experience between theatres in Newcastle, Nottingham, Exeter, Birmingham and London.

A feeling has grown like a debilitating fungus that maybe these theatres aren't worth saving, and maybe this park serves no useful purpose, and maybe this hospital should be closed down, and maybe we can't justify these courses for adults, and maybe we don't need all these people who don't have jobs and take up all this space and all this money.

I don't believe that it is possible to retrace the steps of the last few years, to perform a sort of social surgery that would change our hearts and minds. We are what we are, and it is we who have made our world as it is. The gift of the post-war era was the promise of freedom: political, and economic, and sexual. It was an illusion: we are prisoners of our own social and economic structures.

But the fact we know it was an illusion shouldn't stop us from wanting a better world with our limited resources. We are not a poor country. The leading Romanian actor and director Ion Caramitru told me in shocked tones, expecting my sympathetic support, that he had only 2 per cent of the public



Richard Eyre, director of the National Theatre: 'It is second nature to a nation obsessed with class distinction and offers the singular combination of magic and moral debate'

spending budget of Romania to spend on culture. Ah, I said, if only we had that much.

I always took Margaret Thatcher's dictum "There's no such thing as society," as a figure of speech. I didn't realise that she was so literal, so serious, and so determined to prove her proposition. Her legacy is a sort of political epidemic, a determination to subject every organisation, every institution, to ideological reform at best, abolition at

worst, all driven by the Three Horsemen of the contemporary Apocalypse: money, management and marketing.

I'm not playing naive if I say that I really don't understand why the government doesn't support the arts more fully, but then I'm no more able to understand why the government can't see that education is the key to our future, and that those who work in education might know as much about it as the

politicians. We mustn't let scepticism, cynicism, or apathy lead us to be mute in the face of any attempts to dismantle those organisations and institutions which were set up in the spirit of optimism and belief that there is such a thing as society.

*\*Abridged from Misdirections, to be published on October 27 in a revised edition of Utopia and Other Places by Richard Eyre (Vintage £6.99, 220 pages).*

### London concerts

## Wagner in period

Performances on "period" instruments are catching up with musical history. A movement that initially concerned itself with Baroque and Classical repertoire has now encompassed the early Romantic period. Under Roger Norrington, the London Classical Players have been steadily exploring the 19th century, and on Saturday at the Queen Elizabeth Hall they stepped further into the "unknown" with the culminating Romantic composer: Richard Wagner.

The occasion was Norrington's "Wagner Day", devised as an exploration of German Romantic music parallel to the South Bank's *Deutsche Romantik* exhibition. Its aims were more modest than his previous, celebrated "Experience" weekends, and no attempt was made to cover the range of the Hayward show — that would have meant playing Mozart through to Stockhausen. Rather, Saturday's events focused on the half-century from the death of Beethoven to that of Wagner, and we were restricted to small bites: two talks and two short concerts of chamber music contrasting one early and one late Romantic, Schubert and Liszt; there was no room to explore the darker side of Wagner's Romanticism.

The revelations all came in the evening's concert, the first half of which consisted of overtures by Beethoven (*Coriolan*), Weber (*Freischütz*), Mendelssohn (*Hebrides*) and Schumann (*Genoveva*), played on

instruments of the mid-to-late 19th century, as Wagner would have heard them. After the interval, Norrington picked up the threads with the Overture to *Rienzi* (written in 1840, seven years before *Genoveva*), in a thrilling performance where smaller-scale — though never undernourished — climaxes were punctuated by clanging cymbals and shrieking piccolo. Orchestra and conductor clearly relished their new challenge, and communicated their sense of discovery to the audience.

But giving Wagner the "period" treatment means more than playing on gut strings with no vibrato: since the composer's death, performances of his music have become markedly slower, and Norrington's rethinking of tempos provided the greatest insights. By observing that the 6/8 time signature in the *Tristan* Prelude means two beats per bar, Norrington got away from the now-customary, cloying six, and in the process gave a performance full of surging passion. In adhering to Wagner's own timing for the *Meistersinger* Prelude, he produced a refreshing, animated account that underlined the opera's comic spirit.

We also heard the Preludes to *Parsifal* and Act 3 of *Lohengrin*. Now we must hear whole operas: arguments about the size of Wagner voices today would perhaps be settled, and — were Norrington conducting — opera houses might save on their overtime bills.

John Allison

## Colourful Berlioz

A decade or so ago the BBC Symphony Orchestra would probably have called its exploration of the music of Hector Berlioz, which began in the Royal Festival Hall on Saturday, simply "Berlioz Series". These days, in deference to the marketing men, such projects have snappy titles, often only tangentially relevant. In this case, however, the title "Reinventing the Orchestra" actually encapsulated Berlioz's achievement as a creator of sounds and colours which until then had been essayed only tentatively by his contemporaries.

For Berlioz, orchestration was an integral part of music. His artistic intentions in the *Symphonie fantastique* — not least its autobiographical content — were made explicit by the composer. Yet there is no sense in which Berlioz's orchestral technique, even at this early stage in his career, lags behind his poetic vision. He may have become more resourceful as he grew older, as was evident by the nimble delivery of *Coriolan* overture which began the evening, but the orchestral effects of the *Symphonie* are precise, from the Chiaroscuro delicacy of the opium-induced "Reveries" to the brashly scored nightmare of the

"Witches' Sabbath". Given the hackneyed status of the work, Andrew Davis and the BBC Symphony Orchestra turned in a surprisingly fresh and powerful performance, notable for the assurance of the solo instrumental contributions and the cohesion of the ensemble work.

Berlioz's legacy continues in the importance which many of today's composers attach to sound as pure sensation. Future concerts in the series (7 and 10 October) will include works by two of Scandinavia's leading young composers, Magnus Lindberg and Kaija Saariaho, already well known in the UK, for whom colour is indispensable. On Saturday it was the turn of the Dutchman Tristan Keuris, whose Concerto for Saxophone Quartet was receiving its belated London premiere eight years after it was completed. Despatched with virtuosity by its dedicatees, the Rascher Saxophone Quartet, it emerged as an attractive, rumbustious *jeu d'esprit*, overtopping perhaps, but teaming with incidental detail and displaying an orchestral facility of which Berlioz himself might have been proud.

Antony Bye

## INTERNATIONAL ARTS GUIDE

### BERLIN

**OPERA/DANCE**  
Deutsche Oper John Dew's new staging of Andrea Chenier can be seen tomorrow and Sat. Rafael Frühbeck de Burgos conducts a cast headed by Lisa Gasteen, Richard Margison and Alexandru Agache. Repertory also includes Fidelio, Die Zauberflöte, Der Rosenkavalier and a Balanchine programme (341 0249).  
Staatsoper unter den Linden A new production of Rossini's *Tancredi* can be seen in two different versions this week — the Ferrara version tomorrow with Jochen Kowalski and Lynne Dawson, and the Venice version on Thurs and Sat with Kathleen Kuhlmann and Jeffrey Francis. Both are conducted by Fabio Luisi and staged by Fred Bernici. Repertory also includes Der Freischütz and Roland Petit's ballet Dix (200 4762/2035 4494).  
Kornische Oper Harry Kupfer's new production of Berthold Goldschmidt's 1932 tragicomic opera *Der gewaltige Hahnrei* can be

seen on Fri and Oct 14. Repertory also includes The Bartered Bride, Così fan tutte, Cav and Pag, La Cenerentola and Die Zauberflöte (299 2555).

**CONCERTS**  
Schauspielhaus Today at 3.30pm: Michael Schoenwandt conducts Berlin Symphony Orchestra and Philharmonic Chorus in Beethoven's Ninth Symphony. Tomorrow: Peter Schreier song recital. Wed: Horia Andreescu conducts Bucharest Radio Symphony Orchestra in works by Enescu, Tchaikovsky and Dvorak, with piano soloist Christian Bedl. Wed (Kammermusik): Nancy Argenta song recital. Fri and Sat: Olaf Bär (205 1216).  
Philharmonie Tomorrow: Anne Sophie Mutter. Wed: Jessye Norman. Thurs: Alfred Brendel. Sat: Georg Fritsch conducts Berlin Radio Symphony Orchestra in works by Dvorak, Prokofiev and Ravel. Sun: Berlin Baroque Orchestra presents Monteverdi's *L'incoronazione di Poppea*. The Berlin Philharmonic Orchestra is on tour in Japan. Its next Berlin concerts are Oct 21, 22 and 23 (2548 8132).

### NEW YORK

**THEATRE**  
● *Uncanny Women And Others*: a revival of Wendy Wasserstein's play about friends at a small New England women's college, who meet for tea and then for a reunion six years later. A Second Stage Theatre production directed by Carole Rothman. In previews, opening Oct 26 (Lucille Lortel, 121 Christopher St, 239 6200).  
● *Three Tall Women*: a moving,

poetic play by Edward Albee, dominated by the huge, heroic performance of Myra Carter. She, Jordan Baker and the droll and delightful Marian Seldes represent three generations of women sorting out their pasts (Promenade, 2162 Broadway at 78th St, 239 6200).

● *Angels in America*: Tony Kushner's epic conjures a vision of America at the edge of disaster. Part one, *Millennium Approaches*, and part two, *Perestroika*, are played on separate evenings. The cast includes F. Murray Abraham (Walter Kerr, 219 West 48th St, 239 6200).

● *Philadelphia*, Here I Come! Roundabout Theatre Company's revival of Brian Friel's 1984 Irish drama, with Milo O'Shea, Robert Sean Leonard, Jim True and Pauline Flanagan. Directed by Joe Dowling. Ends Oct 23 (Roundabout, Broadway at 45th St, 869 8400).

● *An Inspector Calls*: J.B. Priestley's 1947 mystery thriller in a stunning re-interpretation by Stephen Daldry, first seen at Britain's National Theatre (Royale, 242 West 45th St, 239 6200).

● *Guys and Dolls*: a top-notch revival of the 1950 musical about the gangsters, gamblers and good-time girls around Times Square (Martin Beck, 302 West 45th St, 239 6200).

● *Carousel*: Nicholas Hytner's National Theatre production from London launches the 1945 Rodgers and Hammerstein musical towards the 21st century (Vivian Beaumont, 150 West 65th St, 239 6200).

● *Kiss of the Spider Woman*: pop star and ex-Miss America Vanessa Williams has taken over the title role in the long-running Kander and Ebb musical directed by Harold Prince

(Broadhurst, 235 West 44th St, 239 6200).

● *Crazy for You*: Gershwin's tunes and Susan Stroman's choreography are the central pleasures of this light and frothy entertainment, now in its third year on Broadway (Shubert, 225 West 44th St, 239 6200).

● *Blood Brothers*: Willy Russell's musical about twins who, separated at birth, eventually meet and fall in love with the same girl. The cast includes Carole King (Music Box, 239 West 45th St, 239 6200).

● *Stomp*: a loud, energetic and wordless movement-theatre show in which a troupe of performers dance, clap and generally bang on everything in sight. Far more engaging than you might expect (Orpheum, 126 Second Ave between 6th and 7th Streets, 307 4100).

**MUSIC**  
Metropolitan Opera Highlights are *Idomeneo* tomorrow and Fri starring Plácido Domingo, and *Tosca* on Wed and Sat with Carol Vaness, Luciano Pavarotti and Sherrill Milnes. This month's repertory also includes *Rigoletto*, *La bohème*, *Arabella* and *Le nozze di Figaro*. The first new production of the season is Shostakovich's *Lady Macbeth of Mtsensk*, opening Nov 10 (362 6000). State Theater New York City Opera's autumn season runs till Nov 20. This week's performances are daily except tonight and Wed, and feature Borodin's *Prince Igor*, Il barbiere di Siviglia, Carmen, *Meistersinger*, *Tosca* and *Delibes' Lakmé*. *Prince Igor* is a new production conducted by Guido Almone-Marsan and choreographed by Damian Woetzel of New York City Ballet (870 5570).

Avery Fisher Hall Kurt Masur conducts this week's New York Philharmonic concert. Tomorrow: Dvorak overtures and Prokofiev's Fifth Symphony. Thurs, Fri, Sat: works by Mironi Mikl and Rimsky-Korsakov (875 5030).

### PARIS

**CONCERTS**  
Théâtre des Champs-Élysées Franz Welser-Möst conducts the London Philharmonic tomorrow in works by George Benjamin and Beethoven, with violin soloist Gil Shaham. Anne Sophie Mutter gives a violin recital on Wed. Bruno-Léonard Gelber plays Beethoven piano sonatas on Sun morning (4852 5050).  
Salle Pleyel Semyon Bychkov conducts Orchestre de Paris in Mahler's Fifth Symphony on Wed and Thurs. Jacques Mercier conducts Orchestre National d'Ile de France on Sat in works by Debussy, Boulez and Dutilleul (4563 0796).

**OPERA**  
Bastille Bob Wilson's version of *Madama Butterfly* can be seen tomorrow, Thurs and Sun afternoon, with Miriam Gaud in the title role (continues till Oct 22). Simon Boccanegra, conducted by Myung-whun Chung and staged by Nicolas Brieger, can be seen on Wed and Fri (till Oct 14), with cast headed by Vladimir Chernov, Kailen Espartero and Roberto Scanduzzi (4473 1300).  
Châtelet The new Ring production continues with Siegfried on Oct 14 and Götterdämmerung on Oct 16. There will be two complete Ring cycles between Oct 31 and

Nov 13 (4028 2840).

**DANCE**  
The Paris Opéra Ballet's 1994-5 season opens at the Bastille on Oct 25 with Grand Défilé followed by Balanchine's *Le Palais de cristal* to Bizet, The Four Temperaments to Hindemith, and Jerome Robbins' *Glass Pieces* to Philip Glass (12 performances till Nov 17). The season also includes a young dancers programme, Nureyev's production of *Swan Lake*, a mixed bill including works by Balanchine and Martha Graham, John Neumeier's *Magnificat* and a Nijinska-Nijinsky programme (4742 5371).

**JAZZ/CABARET**  
American blues singer/guitarist David Dee is in residence this week and next at Lionel Hampton Jazz Club. Music daily from 10.30pm to 02.00am (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042). Joshua Redman Quartet plays next Mon at Théâtre de la Ville (4274 2277).

**FESTIVAL D'AUTOMNE**  
Highlights include Peter Stein's Moscow staging of the *Orestes* (Oct 9-15), a Bob Wilson adaptation of Dostoyevsky (Oct 11-23), Robert Lepage's *Seven Streams of the River Ota* (Nov 18-28), and The Merchant of Venice directed by Peter Sellers (Dec 6-17). The dance programme is headed by Trisha Brown Dance Company (Nov 3-12), and there is a special focus on the music of György Kurtág (Festival d'Automne à Paris, 156 rue de Rivoli, 75001 Paris. Tel 4296 1227 Fax 4015 9288).

### ARTS GUIDE

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Samuel Brittan

## Salzburg sound of economic music



When I recently arrived in Salzburg for a symposium on European unemployment, I had a shock as I crossed the bridge into the city. For the fortress seemed to have gone psychedelic in a variety of brilliant colours. There was the old grey, an area repainted in brilliant white, which was supposedly the original colour, and an intermediate area covered by builders' green netting.

Yet this variety of colour in some ways symbolised our work. For thanks to the initiative of Professor Herbert Giersch of Kiel, a founding member of the German Council of Economic Advisers, 10 economists from a wide range of the political spectrum managed to agree on a common manifesto. They included Richard Cooper, a former Carter appointee, Patrick Minford, who was close to Margaret Thatcher, and Wolfgang Riecke, recently of the Bundesbank.

The Salzburg manifesto pinpointed three "proximate roots of high unemployment": pay and associated labour costs which price workers out of jobs; intermittent periods of low demand growth; and capacity shortages which emerge in many countries in the recovery phases while unemployment is still high.

Unlike some market economists, the Salzburg authors admitted that forces such as globalisation and technical change had an adverse effect on unskilled workers, which showed itself in unemployment in Europe but in low pay in the US. Nevertheless we rejected any kind of protection to keep the problem of low pay by persuading other citizens to "use the tax and transfer system to top up low incomes by direct payments".

These principles are the key. For the practical application must vary from country to country and would require many pages of institutional detail. To the extent that



unemployment is a structural problem, it cannot be tackled by a single brushstroke measure such as leaving or joining an exchange rate arrangement.

In the end we agreed on nine points:

- There has to be an appropriate macro-economic background. "Inflationary dashes for growth should be strictly avoided. But once inflation is at low levels, monetary authorities have as much responsibility for avoiding nominal demand deficiency as inflationary excess." There was a specific recommendation that "the European Monetary Institute should monitor the development of nominal gross domestic product at an EU level".

- Labour markets have to respond more quickly to market changes. I cannot claim that we solved the problem of why pay and associated costs are so often above market levels. But the manifesto urged that settlements reached by collective bargaining should not rise in real terms in the years to come so that productivity growth could be translated into an expansion of employment.

● "Equal pay for equal work" stands in the way of full employment. This was not an anti-feminist rearguard action, but a reference to the need to take on new workers at less than existing pay rates, to try to combine pricing into jobs with the realities of insider power of those already at work.

- The market incomes of unskilled workers in the west are likely to move nearer to those in developing countries. But there would be levelling up as well as down. Moreover as real income in advanced countries would benefit from the extra trade, there would be a surplus to channel towards those most hard hit by economic change.

- There is a need to invest in human capital to reduce present disparities in earning power. The Salzburg writers gave the theme a new twist by rejecting "credentialism" - that is multiplying the paper qualifications - and urging credit vouchers for trainees.

- Physical investment is needed too - but not generalised fiscal subsidies, which too often encouraged capital-intensive projects. The best contribution governments could make was to reduce their own structural budget deficits.

In a carefully negotiated aside we noticed "that a Japanese current account surplus - provided it is not achieved at the expense of a depressed economy - is a contribution to world savings". This was not a digression but recognised the inter-relationship of world capital markets and world real interest rates.

- Top-up payments for low-income households are preferable to other devices such as minimum wage legislation or high benefits. But to carry the more headline German participants we had to underline in several different ways that these top-up payments would be subject to means tests.

- There should be no link between the dole and previous earnings if the benefit is financed from taxation.

- There is a risk that the social chapter of the Maastricht treaty will limit employment "and should be watched carefully". Agreeing this point was some achievement among 10 signatories, only two of whom were British and half of whom were based in Germany. Many heartaches could be saved if a German government had the courage to take the same attitude in European political discussions.

Telephone calls in the UK are becoming as competitive as soap powders - and the difference between rival "brands" is about as great.

Last week saw the launch of two long-distance telecommunications networks. Energis and NTL join Mercury and BT in Europe's most competitive long-distance phone market.

But competition is also opening up for the first time the local telephone market as across Britain cable companies dig up the streets, laying combined cable television and telephone networks.

What does this rapid rise of cable telephony mean for the consumer? And does it spell serious trouble for the future of British Telecommunications, which until a decade ago had a complete monopoly over the UK's phone service?

BT proclaims the cable companies to be its most serious long-term threat. Mr Michael Hopper, BT managing director, says: "Whereas with Mercury we lose the long-distance revenue but keep the line connection, with the cable companies we lose not only the revenue but also the connection - and with it the opportunity to sell and market all our services."

His fears have foundation. The cable companies now boast more than 500,000 telephone customers, double the number a year ago. Although the cable operators are generally called "cable TV companies", this is a misnomer since telephony is almost as important to them as television.

They are marketing the two services hand-in-hand, and revenue from both is critical to the economics of laying a second cable into the home. Of the three largest cable operators in the UK, Nynex is a regional phone operator in the US, while the other two, Telewest and Bell Cablemedia, are joint ventures between telecommunications and cable companies.

Analysts predict that by 2000 the cable companies will have installed nearly 5m phone lines - against BT's current total of 26m. Some cable operators already have more telephone than TV subscribers. Nynex, the second largest operator, claims that 25 per cent of the homes within its Portsmouth network area now take cable telephone, against 22 per cent taking cable TV. A year ago, 58 per cent of new customers were taking both products: now it is up to 70 per cent.

The social make-up of cable customers is changing too. In the early days, when cable was clearly TV-led, it had strongest

## Contest for your conversation

Cable companies and BT are in fierce competition in the UK telephone market, says Andrew Adonis

appeal in areas of low-income housing, where the extra TV channels were especially popular. Telephony is broadening cable's appeal. "At the prosperous end of the demographic continuum we are now selling well above average," says Mr Peter Lynch, director of residential marketing at Nynex. Sales are below average among older residents, "but it is more a concern about change, not a clear socio-economic divide", he believes.

In response, BT has set up "cable defence" teams to target urban areas where cable companies are building their networks. It has also launched a high-profile campaign to persuade the government to lift the ban preventing it from carrying broadcast television across its network into homes.

BT executives are additionally concerned that, as price competition with cable companies intensifies, BT will not be able to vary its prices regionally as the cable companies do.

BT is required by its licence to charge the same for a local call in Portsmouth as in the large London calling zone.

Yet BT probably protests too much. Take prices. Cable companies invariably claim to be cheaper than BT. In reality, however, they are often more expensive. Many customers are seduced by initial savings on line rentals, which are invariably cheaper with cable than BT, and by cable operators' claims that they are cheaper for a "typical" residential phone bill.

Since the cable companies have different tariffs, it is impossible to generalise. The chart compares the weekday residential tariffs of Videotron, a cable operator covering much of London and Hampshire, with those of BT and Mercury.



Weekday 3 minute call (pence)

	Videotron	Mercury	BT
Local			
Daytime	12.3	-	14.8
Evening	4.9 (after 7pm)	-	4.9
Over 35 miles			
Daytime	33.6	24.7	29.6
Evening	18.0 (after 7pm)	14.1 (after 6pm)	19.7 (after 6pm)
London-Paris			
Daytime	102.2	95.5	108.6
Evening	84.5 (after 6pm)	79.7 (after 6pm)	88.8 (after 6pm)

Source: Company reports. \* Free for calls between Videotron subscribers

the evening than that of BT or Mercury - an hour later for local and national calls and two hours later for European calls. So Videotron customers may unwittingly find themselves paying more than twice

**BT proclaims the cable companies to be its most serious long-term threat**

the BT rate for a call unless they look at the detail behind the company's claim to be "at least 10 per cent cheaper" than BT for a "typical" bill.

BT is being forced to slash its prices by Ofel, the UK industry regulator. In the pro-

cess it is putting greater pressure on its competitors as they seek to maintain price differentials. As the existing differential narrows, so does the incentive for customers to switch from one supplier to another.

AT&T, the largest US operator, has made great play of the trifling savings to be made by switching to its competitors - and its discount plans, available to most customers, are cleverly designed to boost loyalty. BT, which last year forged an alliance with AT&T's principal rival, MCI, is fast learning the tricks of the US pricing and marketing trade.

The numbers of cable subscribers cited above also need to be put in perspective. BT still has 85 per cent of the UK's telecoms market. It is currently adding new lines at a

faster rate than the cable companies: its net monthly growth is about 60,000 lines, against less than 40,000 for the cable companies. BT's mobile phone offshoot, Cellnet, has 1.2m subscribers - more than twice as many as all cable phone users put together.

Furthermore, the ban on BT carrying entertainment is unlikely to endure indefinitely. The House of Commons trade and industry select committee recently urged the government to set a firm date of 2002 for lifting the ban nationwide. The Cable Television Association accepts that the cable industry has little to gain from continued uncertainty and supports an eventual end to the ban.

The challenge for the cable companies is to become more than "cheap BTs" in their role as telecoms suppliers. On the residential side, pay-per-view and video-on-demand services across telecoms wires are being tested, with operators promising commercial services in the near future.

If the cable companies can provide interactive services giving customers access to Hollywood movies and home shopping soon, they will steal a march on BT. But dates are vague, and prices have yet to be revealed.

At the outset, cable operators concentrated on the residential market, where joint marketing of TV and telephony appeared to have most to offer. However, they are now also taking the business sector seriously. London's operators have come together in a "London Interconnect" consortium, offering data communications services. Videotron, which holds a telephony franchise in Westminster and the City, has launched a desktop television/information service, upgrading personal computers with a card that gives users access, on their screens, to TV channels and information databases such as a new Reuters service.

But the corporate sector is the fiercest part of the telecoms market. It will be an uphill struggle to win a big share of business against the many new operators - most of them US-owned - building networks and offering services.

That leaves the residential sector, where the cable companies are the only phone operators besides BT with their own fixed networks. For the domestic consumer, competition means greater downward pressure on prices and in time a wider range of services - some compensation for the bulldozers blocking the pavements.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### High-speed rail still an option in US

From Mr Joseph S. Sillen

Sir, Richard Tomkins concluded in his article, "Fast trains are a long time coming" (August 29), that in the US "it is now accepted that the private sector alone will not build high-speed railways".

His conclusion is correct. However, his assertion that the problem facing US high-speed rail projects is that "most Americans never take trains" is off the mark. Where frequent, convenient, and comfortable service is offered, Americans will ride trains in great numbers. This is evident

on at least four popular Amtrak routes - New York to Washington, New York to Albany, Chicago to Milwaukee, and Los Angeles to San Diego. But the service must be offered in order to attract passengers.

Over the past two decades, the US preoccupation with high-speed rail has been focused on multi-billion dollar dedicated right-of-way solutions based on the Japanese, French and German models. All of these projects, requiring huge investments, have failed.

Neither the private nor the public sectors can or will raise

the funds necessary for such expensive undertakings. Operating high-speed rail services on existing tracks has come to be recognised as an achievable solution. This "incremental approach" is based on the successful Swedish model. Tomkins is correct in saying this is not easily done. But combining service-proven tilt trains like X 2000 with the upgrading of existing track, new signalling to govern high-speed trains, improved crossing protection, even the addition of entirely new track to increase capacity - all are affordable when com-

pared with the cost in dollars and in time of building new railroads for high-speed trains. The Northeast Corridor linking Boston, New York, and Washington will be the first US high-speed rail corridor developed using the "incremental approach". I believe that its inevitable success will be a model for other projects around the US.

Joseph S. Sillen, vice president, business development, ABB Traction Inc, 1818 Market Street, Suite 3750, Philadelphia, US

### The market always wins

From Mr Stephen Butler

Sir, Samuel Brittan, in "Calling the bond market bluff" (Economic Viewpoint, September 29), is either not saying anything or he is saying something wrong.

In judging whether anticipated levels of inflation require monetary tightening, it is of course always tempting for any individual - not just central bankers - to imagine that he or she has stumbled upon an indicator which knows better than the market as a whole. No sensible person denies that this is possible.

The real question is: which do you find, on average, to be more trustworthy - the combined judgment of thousands of such individuals, or that of one or a few who have got themselves installed by politicians in central banks?

The Alan Greenspan of this

world, who might actually see something on the horizon that the rest of us miss, will unfortunately always be rare birds; and nothing good can come of flattering central bankers that they share such vision.

Mr Brittan should not need to be reminded that, on average, the daily plebiscite of expert opinion that is a market will always beat any one guess at what will happen next.

The principal danger of central banking is not that one might begin to follow this opinion, "as if it were the word of God" - it is rather the risk of becoming too sure of one's own predictive abilities, and attempting to play that mighty role oneself.

Stephen Butler, Jesus College, Cambridge CB5 8EL

### No pact in Mauritius

From Dr Navin Ramgoolam

Sir, I was proud that Mauritius should emerge with such warm approval from the pages of your newspaper (Survey, September 27).

The achievements of the Mauritian people since independence are such that the nation can be justly proud of them. It is generally the lot of a small country (as the recent experience of Haiti shows) only to come to international attention after natural disasters or political strife. But the success of Mauritius is underpinned by its people's belief in democracy and law. It is the patient achievement of countless thousands of Mauritians, often in spite of official discouragement. This success has not been created in 10 years and cannot be claimed exclusively by the present government or its prime minister.

Moreover, as your correspondent remark, underlying this improvement is a serious and growing concern. For although the Mauritian people have not lost faith in democracy, it is widely believed - from numerous instances - that the government of Mauritius has.

At the last election in 1991, I called publicly for interna-

tional observers because I believed then that electoral malpractices were bound to occur. The prime minister refused this request. I and others have renewed that call because the dangers we perceived have not diminished. The prime minister has recently announced, after strong pressure, some changes in the electoral procedure which would help to safeguard its integrity. We do not believe that is enough. Public confidence in the transparency of elections must be fully preserved if improvements found on their recent visit are to be maintained.

Finally, may I take this opportunity of stating that, contrary to what your survey states, no pact between me and the prime minister, whereby the prime minister would remain in office for several years, has been agreed, nor would any such agreement be acceptable to me, the party I lead, or the vast majority of the Mauritian people. Navin Ramgoolam, leader of the opposition, 85 Sir S Ramgoolam St, Port-Louis, Mauritius

### Keep India plague in perspective

From Dr Shobhana Madhavan

Sir, I warmly congratulate you on the sensitivity and practicality of your editorial, "Don't panic" (September 29). Would-be travellers can feel reassured, and many Indians

will be glad to see the image of "pestilence-stricken multitudes" put for once in a proper perspective. Shobhana Madhavan, 28 Newburn Street, London SE11 5PT

### Capital gains proposal would encourage retention of shares

From Mr H M F Simpson

Sir, The Confederation of British Industry's proposal for the coming Budget that long-term shareholdings should be free of capital gains tax is welcome ("CBI calls for 11bn support in Budget", September 28). One effect would be

to encourage senior executives who receive shares through executive options or other incentives to hold on to them. The CBI, in its May 1994 paper on long-term remuneration for senior executives, wishes directors to be "encouraged" to retain their sharehold-

ings, but there is no effective way in which this can be done. Companies cannot force executives to retain their shares if retention by executives. H M F Simpson, Buck Consultants, 11 York Place, Leeds LS1 2DS

But a long-term CGT-free opportunity of, say, 10 years, would be exactly what is required to promote share retention by executives.

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## FINANCIAL TIMES

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Monday October 3 1994

## Back from the brink

Judged by what might have happened, this weekend's US-Japanese trade agreement marks a victory for common sense. The two sides have averted the immediate danger of a trade war which would have seriously damaged the global economy and sent shockwaves through financial markets. They have also refrained from resorting explicitly to managed trade, which would oblige Japan's government to deliver a fixed share of its national market to US exporters, at the expense of other trading partners. Instead, there is at least a possibility that the agreement may pave the way for beneficial Japanese liberalisation on a multilateral basis.

However, the deal marks a truce, not an armistice, in the hostilities which have embittered US-Japanese relations and bedevilled the world trade system for almost a decade. The risk of a renewed flare-up remains, most obviously over cars and car parts, where no agreement has been reached. Here, the US continues to brandish the threat of eventual trade sanctions, albeit in the form of its Section 301 legislation, rather than the more draconian Super 301 mechanism. Much more remains to be done by the US and Japan if a durable return to stability in the world trade system is to be assured.

The most encouraging augury – and the breakthrough which unlocked agreement at the weekend – is the US decision to abandon its insistence on quantified measures of foreign penetration of Japanese markets. Tokyo had rejected these demands from the outset, on the grounds that they amounted to numerical import targets. Though Washington denied this, it failed to dispel suspicions that it was seeking to coerce the Japanese government into cartels its market for the benefit of US exporters.

## Competitive access

Instead, the negotiators have agreed on a combination of actions by Tokyo to enhance competitive access by increasing market transparency and relaxing regulatory restrictions, notably in telecommunications, medical equipment and insurance. The agreement also envisages that the benefits of such liberalisation should be available to all foreign

competitors, not just US producers.

As well as honouring its commitment to greater openness, Tokyo needs firmly to entrench the principle of multilateralism. Failure to do so would invite accusations of favouritism from other trading powers – notably the EU – and pressures to reach bilateral deals with them which would fragment the global trade system. The most effective solution is for Japan to table this weekend's concessions in the Gatt Japan should also demand that the US seek to resolve any future bilateral trade differences through negotiation in the World Trade Organisation – or, if necessary, through the strengthened dispute settlement procedures planned for the body.

## Uruguay ratification

The priority for the US should be to facilitate that course by swiftly ratifying the Uruguay Round world trade agreement. The deal with Japan should help that process in two ways. First, it removes a distraction which has absorbed far too much of the Clinton administration's political energy; second, to the extent that it redresses the administration's reputation for inept and irresolute handling of international economic policy, it should strengthen its hand in dealing with an increasingly recalcitrant Congress.

Nonetheless, the hurdles to ratification remain daunting. Even if the administration can overcome the recent delaying tactics of Senator Ernest Hollings, the chairman of the Senate commerce committee, Congress seems unlikely to vote on the Uruguay Round until after the November elections. There is a risk that virulent partisanship could then induce many Republicans to vote against the round simply to frustrate the administration's agenda.

President Bill Clinton has compounded his difficulties by not selling the round aggressively enough to Congress and the American people. He needs to build swiftly on this weekend's agreement by spelling out clearly what is at stake. No US congressman should be left in doubt about the size of the gains which the Uruguay accord offers the US economy – or of the costs if it were allowed to fail.

## A private nuclear future

The review of the nuclear power industry which the UK government has been conducting over the past four months has thrown up many complex and emotional issues. But they can all be boiled down to two basic questions. Does the UK need to build any more nuclear power stations? Should the nuclear power generation industry be privatised? Of these, the second is much the more important.

From the nuclear industry's point of view, this is a good moment to address both questions. The two state-owned companies, Nuclear Electric and Scottish Nuclear have made impressive progress towards overcoming the profligacy and misjudgements of the past. They now account for a quarter of the electricity consumed in Britain, and they can produce it at a price which is beginning to approach open market levels. The near-completion of Sizewell B also suggests that the industry's technical abilities are alive and well.

At a time when the government is committed to reducing atmospheric pollution, nuclear can also put up a legitimate environmental case that it is "cleaner" than fossil fuel plants.

On the other hand, Britain has a growing surplus of power generation capacity, and though the nuclear component of that will shrink as first generation Magnox reactors are phased out, there should be no automatic presumption that they will be replaced with further nuclear plant.

## Decommissioning cost

Another complication is the radioactive waste from nuclear power stations, and the cost of decommissioning them when they reach the end of their lives. Neither of the two state-owned companies is fully provisioned for these costs: their liabilities are being covered partly by subsidies from the electricity market, partly by the taxpayer. Although there is a prospect that the newer power stations will be able to provision themselves, this may never be the case with the old Magnox stations whose economics are so doubtful that they will have to remain in government hands whatever happens to the rest of the business.

On the face of it, the case for

privatisation is thus not strong. In its present shape, the industry is not capable of operating commercially because of its huge inherited liabilities and operating costs. The financial markets remain deeply sceptical about the risks of nuclear power.

But all this should not deter the government from exploring ways of reshaping the industry into a form that could become fully commercial. The managements of both state-owned companies are keen to be privatised, and have put forward detailed cases in support of their ambitions.

## Investor credibility

The main aim of the review should be to identify those parts of the generation companies which are capable of standing on their own feet and creating out of them businesses that would have credibility with investors. This would include the more efficient AGR stations and Sizewell B. And it is through the privatisation of the business rather than by government *diktat* that the future of nuclear power must be decided. Making privatisation work will depend on resolving two problems that affect the commercial viability of nuclear power. First, failure to align prices with wider social costs and benefits can lead to distorted outcomes. Thus if nuclear plant is required to bear the full environmental costs including those of decommissioning and spent fuel storage, the same must apply to other forms of electricity generation. Otherwise competition would not be equal.

Second, nuclear power faces unique political risks against which no private operator could hope to insure itself. This problem needs to be addressed by government if a privatised industry is to invest in efficient new generating capacity. Provided these problems are solved, privatisation would be appropriate and should be workable. The management of these companies would be best placed to decide whether further development of nuclear power was viable. The truth is that there is no special case for nuclear power, any more than there was for coal. But if the managers of the industry want to go private, and investors are prepared to back them, they should be given the chance.

The European Commission has moved beef and grain mountains, but further reform of the Common Agricultural Policy is an altogether more painful prospect.

This did not stop the Commission last week publishing a report by an independent panel of experts calling for such reforms. The Commission distanced itself, officially, from the report's conclusions – produced by experts from Belgium, Denmark, France, Germany, Greece, Sweden and the UK – and watched as a wave of protests by farmers confirmed their resistance to further CAP reform.

But it is clear that the report will be used by factions within the Commission to stimulate debate on an overhaul.

The farming industry is still trying to absorb the shock of sweeping reforms brokered by Mr Ray MacSharry, former agriculture commissioner, two years ago. But many farmers privately acknowledge that further reforms are inevitable if the European Union is to meet its commitments under the General Agreement on Tariffs and Trade and its ambitions to enlarge eastwards.

The enormous burden of the CAP on the European consumer and taxpayer is also a powerful argument for reform. According to the Organisation for Economic Co-operation and Development, the CAP cost each person in the EU \$385 last year. This cost represents an average subsidy of \$15,400 for each full-time agricultural worker, or \$80 per hectare of farmland.

The extent of these subsidies has become transparent as part of the MacSharry reforms under which farmers are paid direct compensation for the price cuts and the idle land they have to endure. There is nothing unusual about this scale of support. Indeed, with the exception of New Zealand and Australia, all OECD countries subsidise their agriculture heavily.

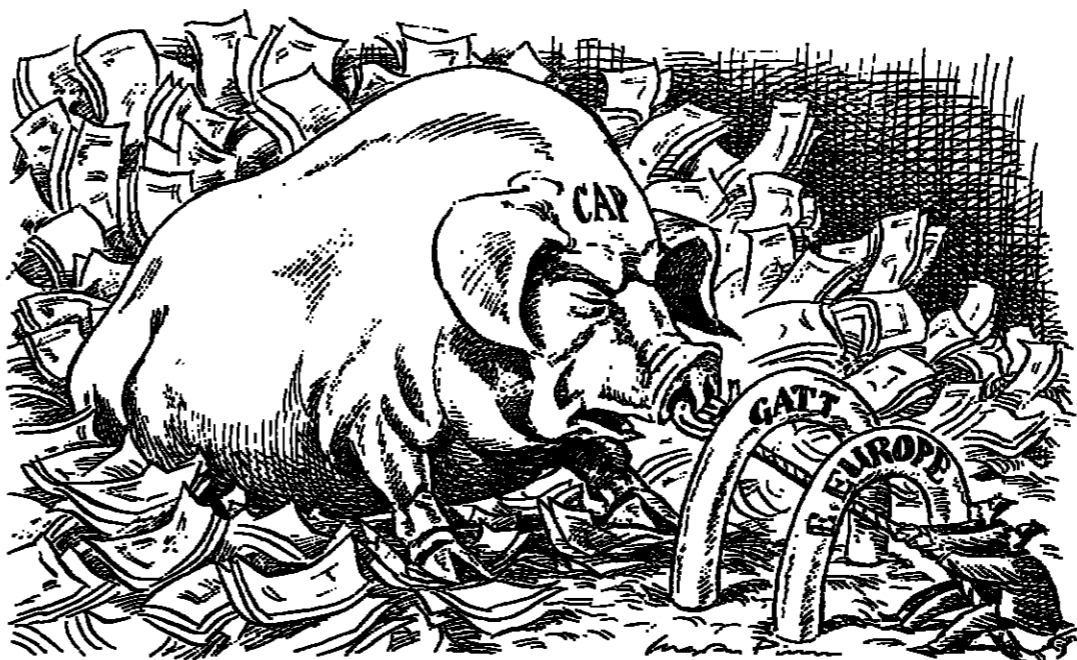
But world farming markets are about to change, with the scheduled entry into force of the Uruguay Round world trade agreement early next year. Many farm experts, including the UK's National Farmers' Union, are unconvinced by the Commission's assurances that the 1992 reforms will be enough to meet the required cut in the volume of subsidised EU exports under the Gatt deal.

Indeed, debate over the future of the CAP was sparked in the UK six months ago by an NFU study presenting members with stark choices over the future of farm policy.

The sceptics argue that reductions in price support – together with "set-aside", under which 15 per cent of arable land is taken out of cultivation – will be insufficient to offset annual increases in output of

## Trouble down on the farm

As the EU expands eastwards, Alison Maitland and Deborah Hargreaves examine the need to reform the CAP



cereals per hectare. They expect beef production, too, to exceed the Gatt limits for subsidised exports by the end of the decade. Such constraints, the NFU argues, will prevent farmers with a tough choice before 2000: either production controls will have to be strengthened, or price support through intervention, the cardinal component of the CAP, will have to be abandoned.

But the freeing of trade, which will expose EU farmers to greater competition, is not the only threat to the cosy world of the CAP. While Austria, Finland, Norway and Sweden's accession to the EU next year should be broadly neutral financially, the eventual absorption of prospective members from central and east Europe poses an enormous challenge. Eventually their farming industries could be fiercely competitive, but they are currently in severe decline because of the loss of traditional markets in the former Soviet Union and the collapse of state distribution systems.

The EU is committed to bringing these nations into the fold. In Germany, the most fervent advocate of enlargement to the east, there is

growing political recognition that this expansion would involve a re-examination of the CAP.

Agriculture officials in Brussels are drawing up plans this autumn to help east Europe's farm sector back onto its feet. They have a tough task, given the conflict between the EU's desire to prevent political unrest in the east and its concern to protect its own farmers.

Yet extending the CAP to east Europe would be beyond the resources of the EU. An over-stretched CAP budget was one of the driving forces behind the MacSharry reforms. It could re-emerge as a pressure point in its own right, long before the accession of the first central European countries. Commission officials say inflationary pressures are building up which could break the spending ceiling next year. This could bring renewed calls for a rationalisation of the farm budget as suggested in last week's CAP report. But such pressure will be resisted by many governments and farm groups.

Tied into the budget debate are growing public demands in northern Europe for farming to be kinder

to the environment, such as using fewer chemical inputs. Environmental measures were built into the 1992 reforms for the first time. But this has only encouraged lobbyists to push for all payments to farmers to be tied to their adopting "green" practices.

Together these forces add up to a compelling case for overhauling the CAP. Yet among the Commission's agriculture officials there is a striking public reticence to debate the issue. Mr René Steichen, the outgoing agriculture commissioner who has presided over implementation of the MacSharry reforms, says it would be wrong to create fresh uncertainty in the farming community when the reforms are working so well. He cites falling production – this year's EU harvest is forecast at 16bn tonnes compared with 16.8bn tonnes in 1991 – and drops of 52 per cent and 77 per cent respectively in the grain and beef mountains over the past year.

Mr Steichen would like to see cuts in the high level of compensation paid to the best-off farmers for setting land aside. This compensation level was conceded by the Commis-

sion in 1992 only under pressure from the farm lobbies. He is also working on changes to sectors left untouched in 1992, such as wine. But provided these reforms prove effective, he says, "I don't think there's a need to change the CAP."

Mr Steichen's view is not shared by all of his Commission colleagues as last week's CAP report shows. The report was ordered by officials in the Commission's economics and financial affairs directorate as a way of encouraging discussion on CAP reform.

However, many EU members are also hesitant about broaching farm reform. Any suggestion that the 1992 reforms might be insufficient to meet the Gatt commitments could risk a trade dispute with the US in the run-up to ratification of the Uruguay Round accord.

Moreover, agreement to the agricultural part of the Gatt deal was wrung from France in exchange for a commitment by the Commission not to increase the level of set-aside without full compensation. The French say the exclusion of small EU farmers from set-aside has left their big grain producers bearing 40 per cent of the total burden of set-aside.

The lack of political will for further reform may also be linked partly to the forthcoming elections in Germany and France.

Given these conflicts, it will be difficult to make even mild changes to the CAP, such as deeper cuts in support prices, without extra compensation for farmers that would overstretch the budget.

Tactically, the need for a new approach to the CAP in the light of the east Europe issue is acknowledged at the Commission. The issue is likely to be back on the agenda in 1995 when the enlargement debate will be more pressing. But ideas for far-reaching reform, such as paying farmers a one-off lump sum in exchange for abolishing all support, appear to be out of line with Brussels' thinking.

UK officials, serving a government that says it would ultimately like the 37-year-old CAP abolished, argue that the policy's staying power cannot be underestimated. "It has never collapsed under the weight of its contradictions," said one.

Indeed, the MacSharry reforms have arguably given it a longer lease of life by making it easier to adjust price support, set-aside levels and compensation while leaving the system's foundations intact. Mr MacSharry is convinced the CAP will still be in place in 2010. "I see a fine-tuning but no revolutionary change," he said. "There's no doubt that while there will be a European Union there will be a CAP."

## Challenge of change



PERSONAL VIEW

When the Bretton Woods institutions were organised 50 years ago, their task of helping rebuild a ravaged Europe and bringing order to the global economic system was clear.

Though probably the tallest order of its kind in modern times, they did the job and did it well. Today, the World Bank and the International Monetary Fund face different challenges. Fifty years ago we were dealing with less than a quarter of the world's economy. Today, the developing world and transition economies account for nearly half of global output.

Today the challenge is development and transition, to spread prosperity. The price of failure is just as high, perhaps higher. But the benefits of success have never been greater.

Both the IMF and World Bank need to look anew at how they can contribute. For the IMF, it is a matter of maximising the economic reform it can support. The Bank must focus on bringing more people into the development process – as participants in planning and as beneficiaries of progress.

The IMF is achieving real results in helping Russia and the other

transition economies reform and rebuild. The carrot of financial support has a tremendous impact. But there is still much to be achieved.

We have asked the IMF to go one step further to support the kind of comprehensive reforms needed for full transition. Increasing access to IMF resources for countries committed to strong reform measures – in eastern Europe, the former Soviet Union and around the developing world – can increase the incentive to take the difficult steps toward productive market-based economies. Extending the Structural Transformation Facility is also critical to reinforcing this process.

To make their participation in the world economy and monetary system complete, all member countries should have the rights and benefits of membership of the IMF. The US has proposed bringing equity to the allocation of Special Drawing Rights. Completing this issue, along with enhancement of support for reform, will be central both to our meetings in Madrid and to the future of the IMF.

Stability in the world economy is important to the prospects for the

developing, transition, and industrialised economies. The Group of Seven finance ministers are committed to strengthening their policy co-ordination efforts. There is a crucial role for the IMF in this process. Nevertheless it is our view that a flexible process of co-operation, not fixed exchange rates or target zones, is the best way forward.

Just as we have learned that austerity is no substitute for careful adjustment, we also know that broad policy changes are not enough for sustained and sustainable development and growth. At the heart of economic activity and productivity are more basic questions. Are workers educated? Are they healthy? Is the population growing too fast for the economy to ever catch up?

There are no easy answers. But with 1bn people in the world existing on less than a dollar a day, we must start somewhere. This is the World Bank's challenge.

The Bank should start by putting people first, with more attention to health, population control and education, particularly for women. It must begin to utilise the private

sector better, supporting and not supplanting the strongest available forces for development. And it must support bottom-up development. Micro-enterprises, for instance, can be a remarkable tool for driving development.

The Bank is turning in this direction. More information about Bank loans and operations is available to the public. More concern has been focused on the resettlement implications of large projects. Loan quality is being addressed by strengthening oversight and concentrating on coherent approaches to development in each country. These changes must be deepened and become part of the Bank's culture.

In addition, the changes being implemented at the Bank must be adopted by the regional development banks.

The upcoming 11th replenishment of the International Development Association offers the opportunity to strengthen the development impact of the new direction in Bank practices.

Our national security institutions are changing to face the new challenges. But our economic institu-



Bentsen: flexible co-operation

tions are only just beginning and must now commit themselves to making these new approaches a way of life.

## Lloyd Bentsen

The author is US Secretary of the Treasury

## Turning up the heat

■ This year's meetings of the International Monetary Fund and World Bank in Madrid are attracting a less courtly breed of demonstrator than past annual banquets.

Lewis Preston, the World Bank President, narrowly missed having a custard pie – cunningly disguised as a birthday cake to mark the Bank's 50th anniversary – pushed in his face at a weekend press conference. Security staff intercepted the missile and quickly bundled out the party poopers chanting "50 years is too much".

Perhaps this new mood encouraged Preston to take a swipe at one of his old banking pals, Paul Volcker, the former Federal Reserve board chairman. Maybe he has something to do with his great height, but Volcker has always appeared above criticism in the arcane world of international monetary affairs. However, Preston couldn't resist a dig when asked to comment on some of Volcker's past proposals for reorganising the World Bank. "Volcker is an old friend and like everybody else he gets stuck in time," said the World Bank's 68-year-old president.

Britain's chancellor Kenneth Clarke was not much kinder. After hearing Volcker express a clear preference for greater order in world foreign exchange markets,

Clarke concluded that he "was struck how much times had moved on". *Sic transit gloria.*

## Yesterday's man

■ If alarm bells are not ringing in Britain's diplomatic service then they should be. Has anybody noticed that Sinn Féin leader Gerry Adams, who will be in New York tomorrow to fall out with Ulster Unionist MP Ken Maginnis on the Larry King Live chat show, is going to be just a cab ride away from South Africa's President Mandela? Mandela is on his first state visit to the US and is busy shaking hands with all sorts of business folk. What better way for Adams to project his public image as Ireland's answer to Nelson Mandela than to arrange a meeting with the great man himself. Much better than trying to get President Bill Clinton to invite him to the White House.

## Female pitch

■ One unfortunate casualty of the ongoing debate about the quota of women MPs in the Labour party was yesterday's traditional pre-conference football match between the Labour party and Fleet Street. The match degenerated into a farce because Labour insisted on fielding three female MPs led by Kate Hoey, a former PE teacher. The only time Labour looked like scoring was when Hoey was

## OBSERVER



'Brian suspects Mr Kempton of only pretending to be on street patrol'

awarded a rather dubious penalty. Her first attempt went over the bar and she was given a second go because the goalkeeper – the FT's David Goodhart who boasts a clean sheet for the Hampstead Heathens this season – had moved off the line. Her second effort dribbled in and Goodhart was given a special award for football chivalry....

## Executive panic

■ What is uppermost in the minds of the captains of industry who have made the long trip north to Labour's Blackpool conference?

National Power gave the game away when it invited one of shadow chancellor Gordon Brown's staff to its conference party. In a corner of the card offering drinks and light refreshments at The Imperial, a National Power employee had noted the reason for the invitation. Scrawled in pencil was the phrase "executive share options".

Meanwhile, Labour's success in sucking more money out of the corporate sector has not pleased all the comrades. Dennis Skinner, the leftwing "beast of Bolsover" was incensed by the discovery that Marconi is sponsoring a reception for the party's national executive committee tonight. He has made it quite clear that he and Tony Benn, the other pillar of the left wing, are not going to be on parade at any booze-up sponsored by a company in the armaments business.

## Body building

■ Welcome signs of movement at The Body Shop. Texan Gwen Guber, who professionalised Kingfisher's public relations, has been recruited to help the embattled cosmetics group rebuild its environmentally-friendly public image. She is being brought in to help ease the strain on Gavin Grant, the former architect of the RSPCA's controversial dead dogs and ponies advertising campaign, who has not had much luck persuading Anita and Gordon Roddick to love journalists.

## Date rape

■ Will Ken Livingstone, the maverick Labour MP who chairs the Anti-Racist Alliance, and John Prescott, the deputy leader of the Labour party, repeat after me. "Thirty days have September, April June and November...."

Issuing press releases dated 31 September does not encourage much confidence in the accuracy of the rest of the contents.

## Waste recycling

■ Browning-Ferris Industries, the US waste services company, makes much of its aversion to waste. Waste of money and resources, that is. Chairman Bill Ruckelshaus boasts that pictures and pages have been eliminated from his company's annual report to save costs. His words have been taken so seriously that BFI has eliminated pages 17-33 of the report and instead reprinted Ruckelshaus's comments from pages 1-16 in full. Well, if it's worth saying once...

## Stock Exchange team opens 116 cases this year Sharp rise in London insider dealing probes

By Robert Peston in London

There has been a sharp increase in possible insider trading cases detected by the London Stock Exchange, according to a Financial Times analysis based on unpublished official figures.

The exchange's surveillance group, whose role is to scrutinise every share deal for signs of criminal activity, has opened 116 cases for investigation so far this year, including more than 75 to alleged insider trading. That represents an effective rise of around 50 per cent over the previous year.

Mr Michael Lawrence, the exchange's chief executive, wants to make the market safer for investors who do not have inside information. A series of measures is under consideration to ensure that anyone buying and selling shares through a London securities house will not be severely disadvantaged if he or she has access only to published information.

"We do not want to have the image of London as a place where you can do insider trading and get away with it," he said.

These measures will be aimed primarily at pre-empting insider trading by making better use of the new computerised Integrated Monitoring and Surveillance System, which the exchange uses to detect unusual share price movements or anomalous transactions.

In the past nine months, the exchange has referred 10 possible cases of insider trading - the making of illegal profits from trading in shares when in possession of confidential price-sensitive information - to the Department of Trade and Industry. That compares with seven in the whole of 1993.

According to officials, this reflects an increased detection rate rather than a rise in the incidence of the offence. The DTI has the power to appoint inspectors to carry out formal insider dealing investigations under the Financial Services Act, after receiving case files from the exchange, and also decides whether to prosecute.

Part of the reason for the low prosecution record is widely believed to lie in the criminal, as opposed to civil, nature of the misdemeanour. The burden of proving beyond any reasonable doubt, as is required in a criminal case, that someone possessed inside information when dealing and then proving that the motive for the transaction was to profit from that information - and that there was no other motive - has frequently been impossible.

Reports and analysis Page 8

So far this year it has appointed inspectors in just five cases, including that of Lord Archer's order to purchase 50,000 Anglia Television shares, and there has been just one trial.

The disclosure of the improved performance of the surveillance group is likely to increase pressure on the government to improve the law to improve the chances of achieving successful prosecutions against suspected insider traders.

The DTI and the exchange have been widely criticised because, in the 14 years since insider trading became illegal in the UK, just 23 individuals have been found guilty of the offence.

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Shift to extremes, Page 3

## Chrysler to cut number of parts suppliers

By Kevin Done, Motor Industry Correspondent, in London

Chrysler, the US carmaker, is planning a radical reduction in the number of its first-tier components suppliers to about 150 from 1,200 at present.

It is also expected in December to approve an increase in its expenditure programme to about \$22.5bn (£14.3bn) for the five years from 1995 to 1999. That compares with \$20bn planned for the period 1994-98.

After coming close to financial collapse at the beginning of the 1990s, Chrysler, the smallest of the big three US carmakers, has emerged as the most profitable of them, with record profits of \$1.89bn in the first six months of this year.

It has become one of the world's lowest-cost carmakers, partly as the result of reforms to the structure of its supply base. Most of the world's leading carmakers are sharply reducing the number of their suppliers in order to simplify and streamline their operations, but Chrysler has taken one of the most radical approaches.

First-tier suppliers are being asked to shoulder much more of the research and development burden for new products, and in return are being rewarded with much longer-term contracts and, increasingly, single-source contracts.

Mr Tom Stallkamp, Chrysler vice-president for purchasing, said the company had already reduced the number of its first-tier suppliers from 3,000 five years ago.

Chrysler's top 150 suppliers account for 90 per cent of its \$27bn total purchasing of parts, goods, services and equipment.

It has cut the number of its tyre suppliers from seven to two, its paint suppliers from five to two and the number of its wiring suppliers from 14 to two.

Mr Robert Eaton, Chrysler chairman and chief executive, said the company intended to concentrate on the core activities of overall vehicle design and development, sheet metal stamping and car assembly, and developing engines and transmissions and electronics.

It had one of the lowest levels of "vertical integration" among western carmakers, buying in almost 70 per cent the cost of a vehicle from outside suppliers.

Mr Stallkamp said greater integration of leading outside suppliers into its operations since 1990-91 had led to suppliers' putting forward proposals for cost savings totalling \$921m.

Savings totalling \$504m had been approved this year and the company was targeting savings of \$750m in 1995.

Chrysler's \$22.5bn spending programme is expected to lead to a complete renewal of its product programme.

## THE LEX COLUMN

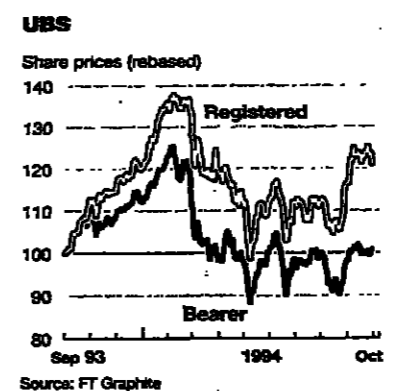
### Disputed rights

Publication of the OFT-sponsored report by Mr Paul Marsh, of the London Business School, on underwriting commissions will set the cat among the City pigeons. The report concludes that the fixed 2 per cent commission paid to underwriters is unjustified. Certain institutions have been anxious to see the document suppressed, a sure indication that it should be published as soon as possible, together with the responses of merchant banks and other interested parties.

The mechanics of raising equity in the UK look inflexible when compared with practice in the US. There, corporations are not obliged to offer new shares to existing shareholders and can therefore gauge the level of potential demand before setting the price of new shares.

Large amounts of cash can be raised by such book-building exercises in days, rather than the three weeks required for a UK issue. Fees in the US are higher than in the UK, but the new shares can be issued at negligible discounts to existing share prices. That compares with a 15 to 20 per cent discount in the UK, which reflects the inherent market risks. Arguably the cost of capital is higher as a result.

A change to the existing UK system would be difficult in the light of pre-emption rights. But these need not be sacrosanct, nor indeed should they be an issue if the shares can be offered at, or close to, the market price. Merchant banks should become more imaginative in finding ways of circumventing the discount, rather than seeking to smother the Marsh report. But traditional merchant banks, without the capital base or the distribution capacity of large integrated houses, have a great deal to lose if the existing system is changed.



Source: FT Graphite

no such problems stand in the way of a modern capital structure.

That said, it will require extraordinary unselfishness on the part of registered shareholders to vote away their privileges. The registered share price would inevitably fall steeply. By siding with Mr Ebner, shareholders might also increase the chances of him forcing management to pay closer attention to increasing return on shareholders' funds.

Yet although increased shareholder activism is welcome in the Swiss market, Mr Ebner is still taking things a little far. UK institutions rarely intervene directly and publicly with management unless things have gone manifestly wrong. Mr Ebner is behaving less like a concerned institution and more like a buccannering conglomerate who wants to seize control on the basis of minority stake. Retail investors in his fund will not thank him if, having used their money to buy expensively into UBS, he fails and has to sell out at a loss.

### UK utilities

The UK water sector currently yields an average 5.8 per cent, a full 1.8 percentage points above the electricity sector. That is because electricity stocks have had such a good run in recent months, outperforming the market by nearly 25 per cent since May. Some investment houses have used the difference in yield to justify recommending their investors to switch from electricity to water. Some shareholders even seem to have heeded their brokers' advice. At the end of last week, the water sector was up 1.7 per cent on the previous Friday's close. The electricity sector was down 3.4 per cent.

Such arguments only take into

account present yields, not future growth. On that basis, the outlook for the regional electricity companies is better than that for their water counterparts. With ungoated balance sheets, the Recs are looking for ways to hand back their excess cash. There could be further share buy-back schemes or even one-off bumper dividends. The proceeds from next year's National Grid sale could also be redistributed to shareholders. Shares could be marked up in preparation for the end, early next year, of the moratorium on mergers and acquisitions in the sector.

In the short term, as the Recs move into the closed period during which they cannot announce share buy-back schemes, their shares look set to underperform. In the long-term, the electricity groups look live-wires, the water stocks stagnant by comparison.

### Italy

The Italian government has been so preoccupied with agreeing a budget that it has allowed its privatisation programme to flag. The coalition partners have squabbled over how and, indeed, whether groups such as Stet (telecoms), Enel (electricity) and Eni (oil and chemicals) should be sold off. The companies have jockeyed for position over which should go first. Mr Silvio Berlusconi, the prime minister, last week tried to inject some momentum into the process by announcing a new timetable: Stet and Enel would be sold by June 1995. He made no mention of Eni, though the government later said it had not been forgotten.

Italy clearly needs to get a move on. Not only do the overall budget projections depend on privatisation proceeds of £10,000bn in each of the next three years; IRI, the debt-laden state holding company which owns Stet, badly needs cash. But setting a timetable on its own is not enough. Previous deadlines have slipped.

Before Stet and Enel can be sold, the coalition needs to agree on the companies' structures. In Stet's case, the central question is whether it should merge with its main subsidiary Telecom Italia. In Enel's case, the questions are whether competitors should be allowed into electricity generation and whether the distribution network should be split on regional lines. The new timetable provides a short breathing space in which such issues can be resolved. But it could too easily be wasted unless Mr Berlusconi moves smartly to knock heads together.

## Extremists' alliance likely to form government in Slovakia

By Vincent Boland in Bratislava

A commanding victory in weekend elections by Mr Vladimir Meciar, twice Slovakia's prime minister, has paved the way for an alliance among his populist movement, socialists and extreme nationalists to form the country's next government.

Mr Meciar's Movement for a Democratic Slovakia (HZDS) won 35 per cent of the vote and a potential 58 seats in Slovakia's 150-member parliament. That is more than three times as many as the party's nearest rival, the former communists of the Democratic Left (SDL). Voter turnout was 75 per cent.

Mr Meciar, ousted as prime minister in March, appeared set to form the next government in a coalition which could include the socialist Union of Slovak Workers (ZRS), which won 7 per cent of the vote, and the extreme nationalists of the Slovak

National party (SNS), which won 5.4 per cent.

The size of the HZDS victory took many observers by surprise. In the weeks before the general election on Friday and Saturday, opinion polls had given the party no more than 27-30 per cent of the vote. If HZDS forms a coalition with the ZRS and SNS, it will have up to 89 seats in parliament and a majority of six seats.

As remarkable as the success of HZDS was the collapse in support for the SDL, which slumped to 10 per cent from 15 per cent at the last election in June 1992, before Slovakia split from the Czech Republic. This has effectively killed hopes of the return to office of the outgoing government, of which the SDL was the dominant partner.

The outgoing prime minister, Mr Jozef Moravcik, whose Democratic Union party, a breakaway unit of the HZDS, garnered 8.5 per cent of the vote, conceded

that there was little likelihood of his government remaining in office. "It will be difficult for the current government to stay together," he said.

Mr Meciar is in the strongest position of any party leader to become Slovakia's next prime minister. His campaign was dominated by threats to stop Mr Moravcik's privatisation programme, and by repeated attacks on Slovakia's ethnic Hungarian minority and on President Michal Kovac, who helped to force him from office in March.

Observers in Bratislava yesterday predicted the instability of Mr Meciar's previous governments is likely to return if he forms the next government. Negotiations on forming a coalition are expected to take several weeks, during which the parties in the outgoing government will also attempt to regroup.

Shift to extremes, Page 3

## US-Japan trade deal

Continued from Page 1

opening measures welcomed the outcome of the talks. Mr Ralph Gerson, president of Guardian International, a glass maker, said: "We are very pleased after long and difficult negotiations that US negotiators have achieved agreement."

## IMF split on reserves

Continued from Page 1

designed to strengthen the reserves, and hence the import capability, of poor developing nations.

Speaking after the G7 meeting, German officials made clear that they had dropped their opposition to an issue of SDRs because the UK-US scheme was a one-off

package, designed to correct an inequity which would need 85 per cent approval of the Fund's members as well as ratification by most countries' parliaments.

Mr Edmond Alphandery, the French finance minister, who had originally supported Mr Camdessus said he had accepted the UK-US plan as the only viable option.

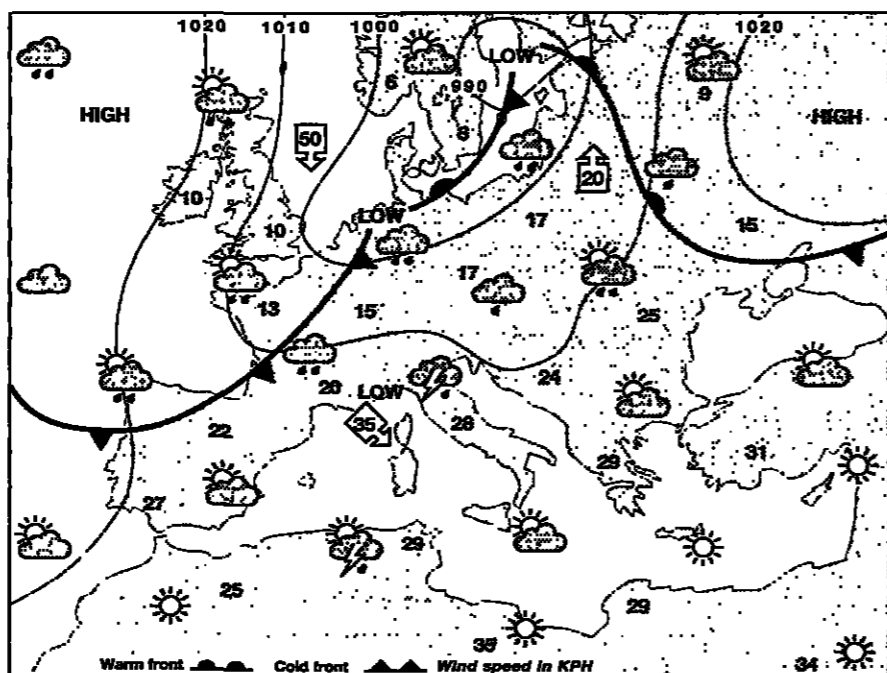
## FT WEATHER GUIDE

### Europe today

A cold front associated with an active depression moving towards Finland will produce continuous rain in the Benelux, Germany and France. In the wake of the front, a mass of cold and unstable air will be drawn into the British Isles and the North Sea area. There will be a few sunny spells and showers, some of them wintry. Snow showers will occur along the Norwegian coast. Further inland, there will be sunny periods, but temperatures will remain unseasonably low. Most of Italy and the southern Alps will have frequent rain or thunder showers. Spain and Portugal will still be rather sunny and warm, but northern regions may have showers. South-east Europe will continue dry with plenty of sun and temperatures between 25C-33C.

### Five-day forecast

The cold and unstable air will move further into central and southern Europe during the next couple of days. Temperatures will fall and most areas will have showers. Snow levels in the Alps will drop to 1000-1400 metres. Most of Scandinavia will be cold, but later in the week it will become steadily milder. South-east Europe will be warm and rather sunny all week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

### TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	37	Algiers	15	Amsterdam	12	Atlanta	18	B. Aires	16
Bahia	28	Bangkok	28	Barcelona	23	Belfast	10	Berlin	10
Bombay	29	Brussels	14	Budapest	11	Cardiff	9	Casablanca	16
Cairo	23	Cape Town	17	Chicago	15	Dakar	28	Dallas	18
Delft	12	Doha	28	Dublin	10	Edinburgh	9	Geneva	17
Hamburg	12	Helsinki	10	Hong Kong	31	Islandia	25	Jakarta	28
Jersey	13	Karachi	28	Kuala Lumpur	31	London	12	Los Angeles	22
Madrid	24	Manila	28	Maracaibo	28	Mexico City	24	Miami	24
Montreal	10	Moscow	10	Munich	18	Nairobi	28	Naples	18
Nassau	22	New York	22	Nice	22	Nicosia	23	Osaka	18
Paris	15	Perth	16	Prague	17	Rangoon	31	Roskilde	18
Sao Paulo	24	Seoul	14	Singapore	24	Stockholm	17	Strasbourg	17
Sydney	23	Taipei	24	Tampere	10	Tel Aviv	32	Tokyo	18
Toronto	12	Vancouver	20	Varna	21	Warsaw	18	Washington	11
Wellington	11	Winnipeg	8	Zurich	17				

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The government appears as a number of securities

September 1994

**International Bank for Reconstruction and Development**

US \$1,500,000,000

7 1/2% Global Bonds due 1999

The government appears as a number of securities

August 1994

**BT**

British Telecommunications public limited company

£300,000,000

8 1/2% Bonds due 2020

BT Finance B.V.

US \$375,000,000

6 1/2% Guaranteed Notes due 1997

The government appears as a number of securities

August 1994

**ALPS 94-1 Pass Through Trust**

US \$782,515,000

Pass Through Certificates

Enhancing Fractional Unlevered Interest in Trust Financed by Agency Loan Portfolio Securitization W-1 Landed

The government appears as a number of securities

July 1994

**The Kingdom of Spain**

US \$2,000,000,000

Euro-Commercial Paper Programme

The government appears as a number of securities

June 1994

**KfW International Finance Inc.**

US \$300,000,000

7% Notes due 1999

unconditionally and irrevocably guaranteed by

**KfW Kreditanstalt für Wiederaufbau**

The government appears as a number of securities

March 1994

**Nacional Financiera, S.N.C.**

US \$250,000,000

Floating Rate Notes due 1999

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## Hoechst plans big restructuring

By Christopher Parkes  
in Frankfurt

Germany's Hoechst chemicals group is to sweep away its antiquated, centralised management and operational structure in the most ambitious shake-out ordered so far by Mr Jürgen Dormann, the new chairman.

The changes, effective from January 1, will reduce the number of operating divisions from 15 to seven and transfer responsibility for divisional strategy and profits to their managers, the company said.

This will leave the main board free to concentrate on group strategy, supported by a central administration comprising about 200 people. Previously centralised responsibilities for factories and departmental functions are to be passed down to individual divisional managements.

"We need more entrepreneurial initiative, market and customer orientation and greater flexibility," the group said in a notice to staff. The current structure was "a fine-meshed net, trapping and considerably delaying decisions, business processes, customer demands and change," it added.

Mr Dormann, who took charge in May, said recession had exposed structural weaknesses in the group which had not yet been repaired. It could not allow itself to fall into such a situation again, he said, recalling that it had been forced to close more than 20 German fine chemicals plants during the recent slump.

Mr Dormann warned that decentralisation did not mean operating divisions could allow themselves the luxury of heavy overheads.

"It is the job of divisional

chiefs to keep their structures lean or slim them even further," he said.

Under the plan, future operating divisions will comprise chemicals, special chemicals, fibres, plastics and film, engineering plastics, pharmaceuticals and diagnostics.

The number of business units, covering distribution, packaging and other functions, will also be cut from 120 to about 30, while subsidiaries, such as Schwarzkopf personal care, Uhde plant construction, Herberts coating and paints and Messer Griesheim industrial gases, will be run as independent companies.

The possibility of merging central engineering services into Uhde is currently under investigation.

The move will destroy the pyramid structure commonly found in many German groups - with most decisions being

made at the apex - and replace it with a flatter hierarchy in the modern Anglo-American style.

It follows specific restructuring measures, such as the consolidation of global fibres operations into one division now controlled out of the US.

The healthcare business recently announced closer integration of its French subsidiary, Roussel Uclaf, into other pharmaceutical operations.

Mr Jean-Pierre Godard, drugs chief, said the aim was to cut out duplication in research and manufacturing and increase gross operating margins.

Currently about 10 per cent of sales, to 14 per cent within three years.

Including a reduction of 800 in the workforce, the rationalisation measures are expected to save the group DM200m (\$128m) a year, Mr Godard said.

## BHF-Bank hit by bond market downturn

By Andrew Fisher in Prague

BHF-Bank has announced flat operating profits for the first eight months of 1994 as a result of the downturn in world bond markets and higher risk provisions, but said recently announced restructuring plans should lead to a big rise in eventual profitability.

Group operating profits totalled DM202m (\$131m), a drop of 0.1 per cent on the first eight months of 1993. Compared with eight-twelfths of last year's total - the usual comparative basis at German banks - the decline was 6.4 per cent.

Mr Wolfgang Strutz, the bank's senior partner, said profits on own account trading had fallen by 89 per cent using the eight-twelfths comparison, mainly as a result of write-downs in BHF's bond portfolio. Risk provisions had risen by 5.7 per cent, with the bank exposed to both the Schneider property and Procede/Balsam factoring collapses.

Growth in partial operating profits, which exclude own account trading, was 17.7 per cent; the bank gave no total. Interest rate business produced profits growth of 14 per cent, with commission income up by 2 per cent.

Elaborating on the new structure, to be put in place over the next year, Mr Strutz said this should lead to "a significant increase" in earnings per share. But the investment in new systems and people would affect the 1995 result and probably that of 1996.

Compared with the 1993 return on capital of 13.4 per cent before tax, he said the bank was aiming at 20 per cent. The aim was to earn returns similar to those of other international banks.

BHF is refocusing its activities to become one of Europe's leading advisory and trading banks in the next five years.

BHF, in which the Allianz insurance group and DG Bank own large minority stakes, will concentrate on corporate banking, financial markets, and private banking and asset management.

## Market gives Ebner first round in battle for UBS

The prices of the bearer and registered shares of Union Bank of Switzerland displayed rare volatility on Friday as investors struggled to guess the outcome of the war that had just been declared between the directors of one of the world's most highly respected banks and Mr Martin Ebner, a little known Zurich broker-fund manager.

At the close, the market seemed to be backing Mr Ebner, no small tribute to the immense resources and influence this intense man has accumulated since setting up his BZ banking group nine years ago. However, the unavoidable final showdown at a UBS extraordinary general meeting on November 22 is still seven weeks away.

The main issue is whether a group of shareholders representing only a minority of the capital should be able to control the board. But the battle is also part of an ongoing struggle between an old, self-serving Swiss financial establishment and a new generation of asset managers who want better performance from their Swiss investments.

And it is a personal confrontation between Mr Nikolaus Senn, the garrulous UBS chairman who cannot conceal his distaste for a cheeky upstart, and a successful outsider who represents the posturing of someone whose stewardship of Switzerland's largest bank has been undistinguished.

Mr Ebner's interest in UBS dates from 1991, when he launched BK Vision to invest in financial equities. It was apparently set up in part to accommodate the wish of some of his clients to shift their less liquid holdings.

UBS registered shares suffered from a small float and a

restriction permitting only Swiss nationals to vote them, and traded at a substantial discount to the bearers. From the start, these securities have been among BK Vision's largest holdings.

Mr Ebner made clear that BK would be an active shareholder - nudging directors towards greater transparency and sensitivity to shareholders - and has been particularly aggressive in needing UBS.

### Ian Rodger reports on the opening moves in a banking confrontation

In its latest dig, BK Vision put a motion on the UBS AGM agenda in the spring proposing that the number of board members be reduced from 22 to a maximum of nine. Mr Senn resisted it with a barrage of pretentious arguments about UBS's responsibility for the whole Swiss economy and, armed with the usual fistful of proxies, he carried the day.

But Mr Ebner, to his immense surprise, attracted some 40 per cent of the votes, and it now looks as if he interpreted this support as a wider mandate to challenge the bank's basic policies.

According to Mr Senn, Mr Ebner told him he was trying to corral a majority of the votes with a view to installing a new board at the next annual general meeting and directing UBS to abandon its universal strategy and concentrate instead on investment banking and asset management.

As UBS has a market capitalisation of over SFr30bn, it would normally be extremely difficult for anyone to accumu-

late enough votes for such a cause, especially as the bank's performance, while mediocre, is not distressing. But those registered shares that BK Vision holds have five times the voting power of bearers.

Claiming it would be unfair for investors representing only a minority of its capital to take control, the UBS board last Thursday proposed splits of both the bearer and registered shares, giving them equal voting power. The registered shareholders' aggregate voting power would fall from 50 per cent to 20 per cent, in line with their capital commitment.

Predictably, BK Vision cried foul, saying the bank would take away the registered shareholders' property rights without compensation. The registered shares have been trading at a substantial effective premium to the bearers in the past few months, but only because Mr Ebner and his allies have been buying them.

Mr Ebner is on stronger ground when he argues that his goal is to focus the bank's efforts on profitability, which he says is in the interest of all shareholders.

UBS directors face a tough struggle. They must win two-thirds of the votes at the EGM plus a majority from each share class. That means they must convince many Swiss registered shareholders, including UBS employees, it is in their interest to see those shares lose a quarter of their value.

If investors thought UBS was going to win, the premium on the registered shares should have disappeared on Friday. But at the close, it still stood at 26 per cent.

Maverick hunter, Page 18  
Lex, Page 20

## First results for Ina since privatisation

By Andrew Hill

Ina, the Italian insurance company, reported parent company pre-tax profits of L250bn (\$160m) for the first half of 1994, in its first results since June, when the Italian treasury privatised 51 per cent of the company.

Comparison with last year's figures is misleading, because until October 1993 Ina benefited from compulsory contributions from other Italian insurers, but the company pointed out that in the whole of 1993, its pre-tax profit amounted to only L274bn.

Group premium income reached L2,970bn, up 12.8 per cent on the equivalent period, L1,218bn from life activities, and L1,752bn from non-life.

● Istituto Bancario San Paolo di Torino, Italy's biggest banking group, reported a net profit in the first half of L203bn, almost the same as last year, but operating profits fell by 21 per cent to L823bn.

San Paolo has been affected, like all Italian banks, by pressure on interest margins and paper losses on its investment portfolio, compared with the favourable conditions of the first six months of last year.

## Ferfin cuts debt by near 30%

By Andrew Hill in Milan

Capital increases and asset sales enabled Ferruzzi Finanziaria, the financial holding company of Italy's Montedison industrial group, to cut debt in the first six months of this year by nearly 30 per cent to L15,783bn (\$10bn).

At end-1993, Ferfin's debt stood at L21,951bn, or 5.5 times net equity. The debt-equity ratio had come down to 1.7 by June 30. Last year creditor banks of Ferfin and Montedison agreed to convert some of their loans into equity to rescue the group from near-collapse following years of alleged mismanagement.

In the first half Ferfin's turnover rose to L11,431bn, against L11,489bn.

● Ciga, the Italian luxury hotels group controlled by ITT of the US, has cut its losses

and reduced debt in the first half of 1993.

The consolidated net loss for the first six months of the year reached L64bn, compared with L110bn in the equivalent period of 1993, thanks partly to an improved performance from the core hotels division.

The group's share issue earlier this year has also allowed Ciga to reduce its debts to L233bn at June 30, compared with L1,102bn six months earlier. ITT, the US conglomerate which owns the Sheraton hotel chain, has 35.25 per cent of Ciga, and has launched a formal bid for a further 35.25 per cent, which will close at the end of this week.

## MIM sale cuts ties with Cominco

By Nikki Tait in Sydney and  
Bernard Simon in Toronto

MIM Holdings, the Queensland-based metals group, has sold its remaining 8.66 per cent holding in Cominco, the North American mining and smelting group, for C\$164.9m (US\$128m).

The sale cuts all shareholding ties between the two companies and ends an ambitious international base-metals alliance which was stitched

together during the 1980s by MIM, Germany's Metallgesellschaft and Teck Corp of Vancouver.

Earlier this year, MIM sold its half share in Nunachag, a private investment company, to Teck for C\$139.7m. Nunachag's principal assets included a 37.7 per cent holding in Cominco, as well as a 22.46 per cent interest in the Polaris zinc-lead mine joint venture.

Metallgesellschaft earlier

this month sold the bulk of its international mining assets, including indirect stakes in Teck and Cominco, with the disposal of a controlling stake in Metall Mining of Toronto.

In the case of the latest Cominco sale, MIM said that the shares had been "broadly distributed" among investors on a block trade basis at C\$24 a share. The disposal of the 6.87m shares will generate a C\$11m profit before tax for MIM's Canadian subsidiary.

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# Banca de Inversiones ARGENTARIA

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<p><b>Generalitat de Catalunya Corporació Catalana de Ràdio i Televisió</b></p> <p>Pesetas 13.000.000.000</p> <p>Underwriter &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Canal de Isabel II</b></p> <p>Pesetas 12.000.000.000</p> <p>Underwriter &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>SOGETINSA</b></p> <p>Pesetas 12.000.000.000</p> <p>Underwriter &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Gobierno Balear</b></p> <p>Pesetas 9.822.072.366</p> <p>Underwriter</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>AUMAR</b></p> <p>Pesetas 14.310.000.000</p> <p>Co-Lead Manager Domestic Tranche</p>	
<p><b>HOJA</b></p> <p>Pesetas 8.000.000.000</p> <p>Underwriter &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Región de Murcia</b></p> <p>Pesetas 7.253.000.000</p> <p>Underwriter &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Generalitat de Catalunya Departament de Medi Ambient Junta de Governament</b></p> <p>Pesetas 5.500.000.000</p> <p>Underwriter &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Generalitat de Catalunya Corporació Catalana de Ràdio i Televisió</b></p> <p>Pesetas 4.384.000.000</p> <p>Underwriter</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>FCC</b></p> <p>FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.</p> <p>Pesetas 48.000.000.000</p> <p>Co-Lead Manager Domestic Tranche</p> <p>Sociedad de Valores y Bolsa ARGENTARIA</p>	<p><b>kpn</b></p> <p>Royal PTT Nederland N.V.</p> <p>Dutch Guilders 6.872.962.500</p> <p>Co-Manager R.O.W. Tranche</p> <p>Sociedad de Valores y Bolsa ARGENTARIA</p>
<p><b>EMT</b></p> <p>Pesetas 1.500.000.000</p> <p>Underwriter</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>EUROPEAN INVESTMENT BANK</b></p> <p>Pesetas 50.000.000.000</p> <p>Joint Bookrunner</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>EUROFIMA</b></p> <p>Pesetas 10.000.000.000</p> <p>Joint Bookrunner</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>L/A</b></p> <p>Reyerische Landesanstalt für Aufbaufinanzierung</p> <p>Pesetas 10.000.000.000</p> <p>Joint Lead Manager</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Empresas La Moderna S.A. de C.V.</b></p> <p>U.S. Dollars 344.655.350</p> <p>Co-Manager International Tranche</p> <p>Sociedad de Valores y Bolsa ARGENTARIA</p>	<p><b>IMI S.p.A.</b></p> <p>ISTITUTO MOBILIARE ITALIANO</p> <p>Italian Lires 2.180.000.000.000</p> <p>Co-Manager Institutional Tranche</p> <p>Sociedad de Valores y Bolsa ARGENTARIA</p>
<p><b>FCS</b></p> <p>Pesetas 30.000.000.000</p> <p>Lead Manager &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Generalitat de Catalunya</b></p> <p>Convertible Term Loan Pesetas 25.000.000.000</p> <p>Lead Manager &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Sevillana de Electricidad</b></p> <p>Pesetas 20.750.000.000</p> <p>Lead Manager &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Corporación Banamaria ARGENTARIA</b></p> <p>French Francs 1.500.000.000</p> <p>Joint Lead Manager</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Grupo Iusacell, S.A. de C.V.</b></p> <p>U.S. Dollars 233.618.065</p> <p>Co-Manager Institutional Tranche</p> <p>Sociedad de Valores y Bolsa ARGENTARIA</p>	<p><b>case</b></p> <p>Case Equipment Corporation</p> <p>U.S. Dollars 332.500.000</p> <p>Co-Manager International Tranche</p> <p>Sociedad de Valores y Bolsa ARGENTARIA</p>
<p><b>Gobierno Balear</b></p> <p>Pesetas 15.000.000.000</p> <p>Lead Manager &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>Convertible Term Loan</b></p> <p>Pesetas 15.000.000.000</p> <p>Lead Manager &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>RENFE</b></p> <p>Pesetas 15.000.000.000</p> <p>Lead Manager &amp; Agent</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>KINGDOM OF SPAIN</b></p> <p>French Francs 6.000.000.000</p> <p>Co-Lead Manager</p> <p>Banco de Negocios ARGENTARIA</p>	<p><b>USIMINAS</b></p> <p>Usinas Siderúrgicas de Minas Gerais, S.A.</p> <p>U.S. Dollars 417.422.086</p> <p>Co-Manager International Tranche</p> <p>Sociedad de Valores y Bolsa ARGENTARIA</p>	<p><b>INIA</b></p> <p>Istituto Nazionale delle Assicurazioni S.p.A.</p> <p>Italian Lires 4.536.000.000.000</p> <p>Co-Manager Institutional Tranche</p> <p>Sociedad de Valores y Bolsa ARGENTARIA</p>
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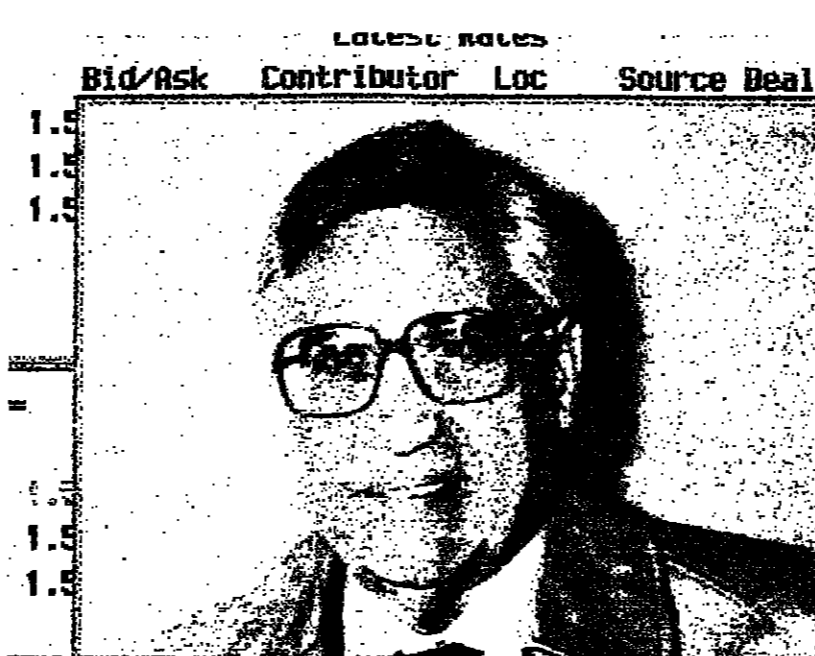


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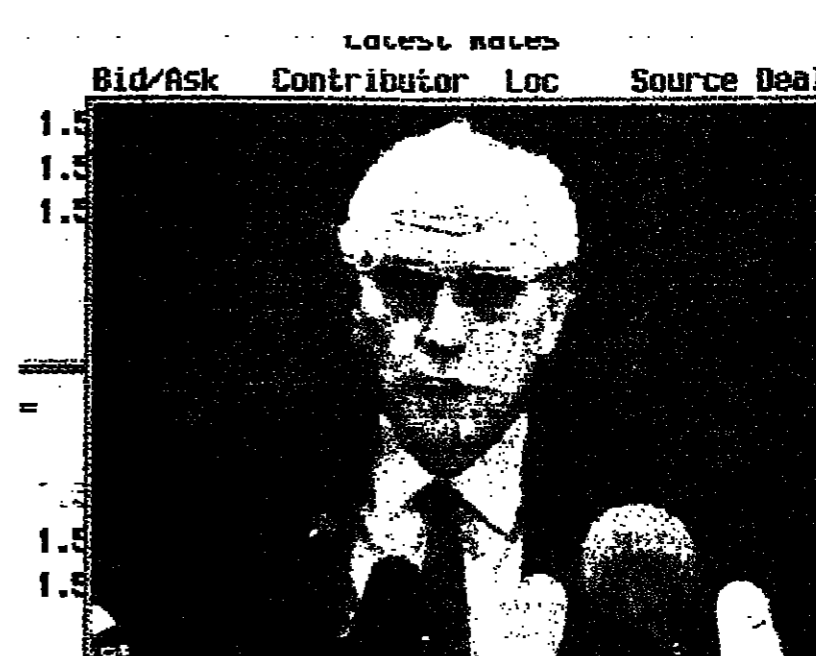




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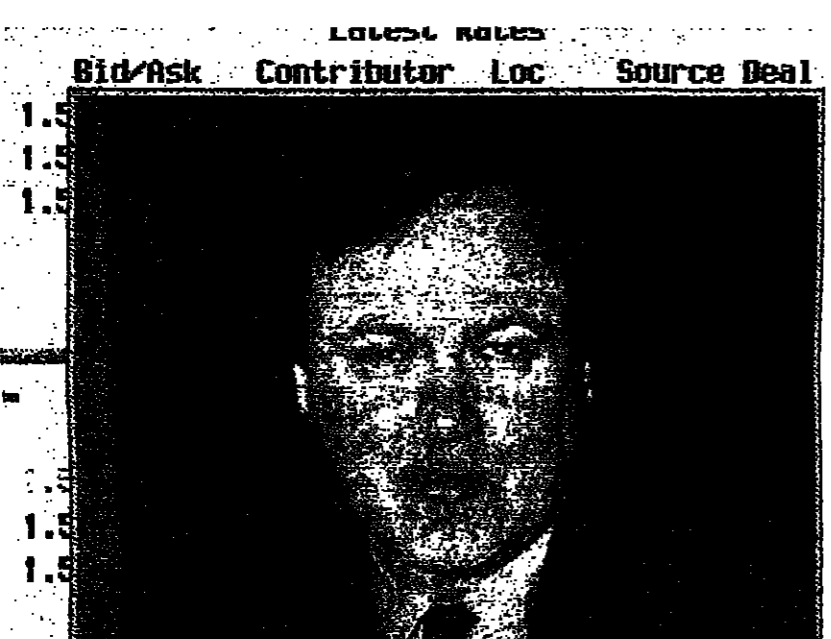
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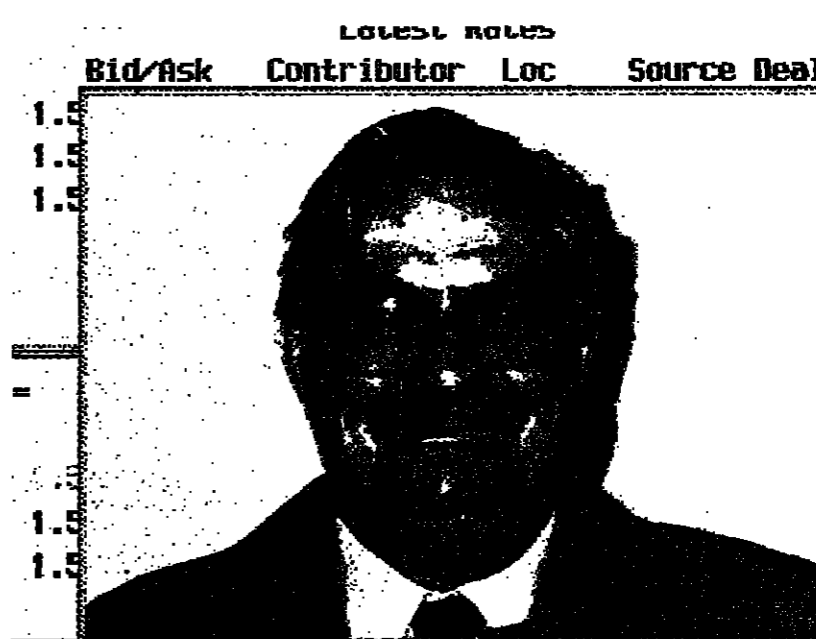
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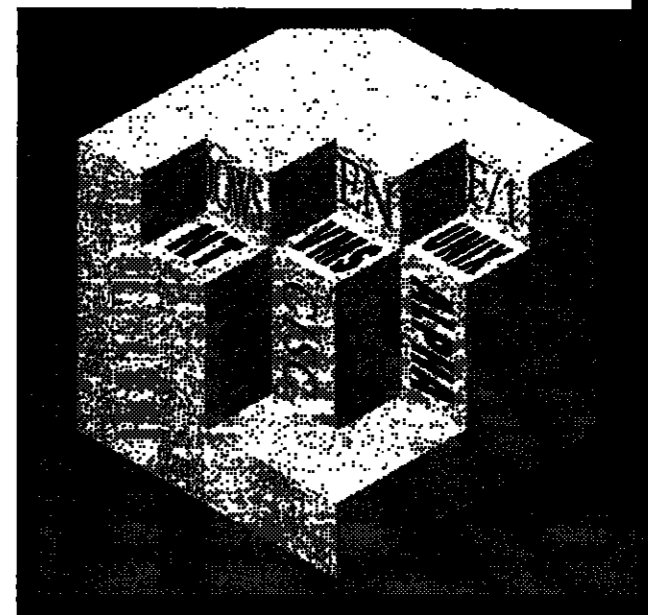
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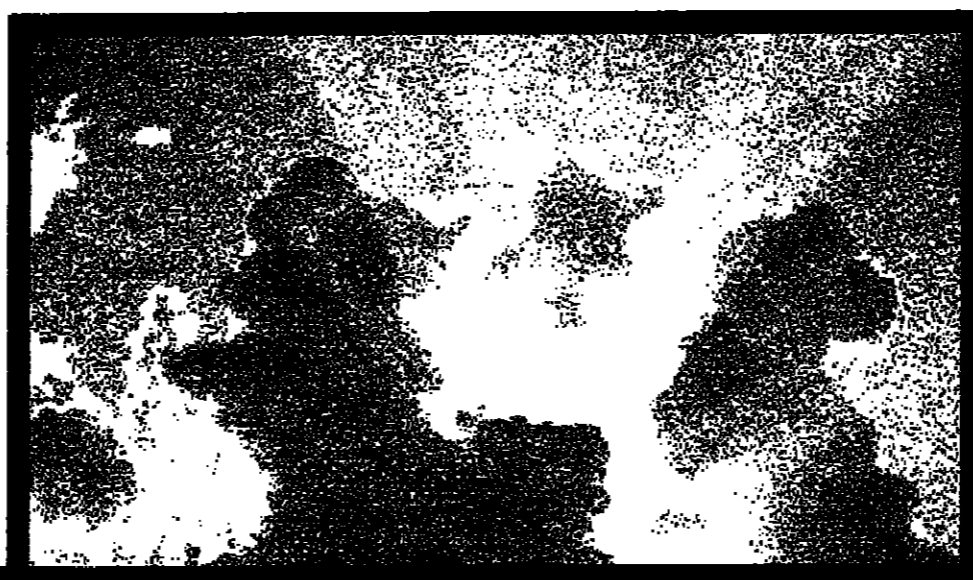
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**INITIAL CHARGE:** Charge made on sale of vehicle. Based on delivery, destination and

**OFFER PRICE:** Also called issue price. The price at which units are bought by investors.

**BID PRICE:** Also called redemption price. The price at which units are sold back by investors.

managers. **SCHEME PARTICULARS AND REPORTS:** The most recent report and scheme particulars can be obtained free of charge from fund managers.

1401 to 1700 hours; (4) - 1701 to midnight.  
Daily dosing prices are set on the basis of the  
valuation point; a short period of time may  
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The prices shown are the latest available before publication and may not be the correct dealing levels because of an intervening portfolio revision or a switch to a forward pricing basis. The measures must first be a forward

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Centre Point,  
103 New Oxford Street, London WC1A 1OH**

Tel: 071-378-0444.

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## CURRENCIES AND MONEY

## POUND SPOT FORWARD AGAINST THE POUND

Sep 30	Closing mid-point	Change on day	Mid-point spread	Days' Mid	One month	Three months	One year	Bank of
					Rate	Rate	Rate	Eng. Ind.
Europe								
Austria (Sch)	17.2185	+0.0122	0.91	276	17.2225	17.1819	17.2142	0.3
Belgium (Bfr)	65.3378	+0.0874	904	854	50.3880	50.2180	50.3679	-0.5
Denmark (DKK)	8.8572	+0.0036	582	104	9.8025	9.8025	9.8025	-0.8
Finland (Fmk)	7.8688	+0.0042	585	701	7.7250	7.6420	7.7250	-0.3
France (FFr)	6.3491	+0.0078	444	587	6.3545	6.3525	6.3501	-0.1
Germany (DM)	2.4468	+0.0025	482	483	2.4468	2.4413	2.4468	0.4
Greece (Dr)	373.110	+0.0031	655	532	372.885	371.825	372.885	-0.1
Ireland (Ir)	1.0122	+0.0008	110	138	1.0122	1.0122	1.0122	-0.1
Italy (L)	2460.12	+3.18	855	180	2462.78	2454.14	2462.78	-0.1
Netherlands (Gld)	30.3378	+0.0074	904	854	30.3880	30.2180	30.3679	-0.5
Norway (Nkr)	12.4605	+0.0032	417	417	12.4605	12.4605	12.4605	-0.3
Portugal (Esc)	204.482	+0.0032	417	417	204.482	204.482	204.482	-0.3
Spain (Pta)	166.639	+0.0032	417	417	166.639	166.639	166.639	-0.3
Sweden (Skr)	10.4605	+0.0032	417	417	10.4605	10.4605	10.4605	-0.3
Switzerland (Sfr)	1.7181	+0.0032	417	417	1.7181	1.7181	1.7181	-0.3
UK (Sterling)	1.7181	+0.0032	417	417	1.7181	1.7181	1.7181	-0.3
USA (Dollar)	1.7181	+0.0032	417	417	1.7181	1.7181	1.7181	-0.3

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 30	Closing mid-point	Change on day	Mid-point spread	Days' Mid	One month	Three months	One year	JP Morgan
					Rate	Rate	Rate	Index
Europe								
Austria (Sch)	10.9185	+0.0035	180	210	10.9210	10.8860	10.9185	0.0
Belgium (Bfr)	31.8200	+0.1350	400	31.8400	31.8040	31.8200	31.8200	-0.1
Denmark (DKK)	0.0081	+0.0175	651	871	0.0081	0.0081	0.0081	-0.1
Finland (Fmk)	4.8829	+0.0098	579	679	4.8829	4.8829	4.8829	-0.1
France (FFr)	5.2949	+0.0115	300	355	5.2955	5.2785	5.2949	-0.2
Germany (DM)	1.5515	+0.0054	610	620	1.5515	1.5515	1.5515	0.3
Greece (Dr)	236.800	+1.4000	800	236.800	236.800	236.800	236.800	-0.1
Ireland (Ir)	1.5580	+0.0049	572	587	1.5580	1.5572	1.5580	0.4
Italy (L)	1580.100	+1.5000	1580.100	1580.100	1580.100	1580.100	1580.100	-0.1
Netherlands (Gld)	31.8200	+0.1350	400	31.8400	31.8040	31.8200	31.8200	-0.1
Norway (Nkr)	1.7375	+0.0056	375	380	1.7375	1.7375	1.7375	0.2
Portugal (Esc)	6.7878	+0.0169	669	669	6.7878	6.7700	6.7878	-0.1
Spain (Pta)	158.200	+0.54	100	158.200	158.200	158.200	158.200	-0.1
Sweden (Skr)	128.575	+0.475	100	128.575	128.575	128.575	128.575	-0.1
Switzerland (Sfr)	7.4801	+0.0005	751	851	7.4801	7.4801	7.4801	-0.1
UK (Sterling)	1.2878	+0.0051	873	883	1.2878	1.2878	1.2878	-0.1
USA (Dollar)	1.5717	+0.0044	755	755	1.5717	1.5717	1.5717	-0.1
USA (Dollar)	1.5717	+0.0044	755	755	1.5717	1.5717	1.5717	-0.1

1000 rate for Sep 30. Bid/offer spread in the Pound Spot table shows only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Bid/offer spread in the Dollar Spot table shows only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan normal indices Sep 29. Base average 1980=100.

## CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES	Sep 30	Open	Sett	Change	High	Low	Est. Vol	Open Int.
Belgium (Bfr)	10.9185	10.9185	10.9185	0.0035	10.9210	10.8860	10.9185	0.0
Denmark (DKK)	8.8572	8.8572	8.8572	0.0036	8.8608	8.8536	8.8572	-0.1
Finland (Fmk)	7.8688	7.8688	7.8688	0.0042	7.8730	7.8646	7.8688	-0.3
France (FFr)	6.3491	6.3491	6.3491	0.0078	6.3569	6.3413	6.3491	-0.1
Germany (DM)	2.4468	2.4468	2.4468	0.0025	2.4493	2.4443	2.4468	0.4
Greece (Dr)	373.110	373.110	373.110	0.0031	373.110	373.110	373.110	-0.1
Ireland (Ir)	1.0122	1.0122	1.0122	0.0008	1.0122	1.0122	1.0122	-0.1
Italy (L)	2460.12	2460.12	2460.12	3.18	2462.78	2454.14	2460.12	-0.1
Netherlands (Gld)	30.3378	30.3378	30.3378	0.0074	30.3880	30.2180	30.3378	-0.5
Norway (Nkr)	12.4605	12.4605	12.4605	0.0032	12.4605	12.4605	12.4605	-0.3
Portugal (Esc)	204.482	204.482	204.482	0.0032	204.482	204.482	204.482	-0.3
Spain (Pta)	166.639	166.639	166.639	0.0032	166.639	166.639	166.639	-0.3
Sweden (Skr)	10.4605	10.4605	10.4605	0.0032	10.4605	10.4605	10.4605	-0.3
Switzerland (Sfr)	1.7181	1.7181	1.7181	0.0032	1.7181	1.7181	1.7181	-0.3
UK (Sterling)	1.7181	1.7181	1.7181	0.0032	1.7181	1.7181	1.7181	-0.3
USA (Dollar)	1.7181	1.7181	1.7181	0.0032	1.7181	1.7181	1.7181	-0.3

## UK INTEREST RATES

LONDON MONEY RATES	Sep 30	Open	Sett	Change	High	Low	Est. Vol	Open Int.
Dec	0.0450	0.0450	0.0450	0.0010	0.0460	0.0440	20,551	71,548
Mar	0.0474	0.0474	0.0474	0.0017	0.0491	0.0457	100	574
Jun	0.0469	0.0469	0.0469	0.0017	0.0486	0.0452	100	574

## EURO CURRENCY INTEREST RATES

EURO CURRENCY INTEREST RATES	Sep 30	Open	Sett	Change	High	Low	Est. Vol	Open Int.
Dec	0.7802	0.7802	0.7802	0.0023	0.7825	0.7779	11,383	34,629
Mar	0.7810	0.7810	0.7810	0.0024	0.7834	0.7786	28	667
Jun	0.7840	0.7840	0.7840	0.0023	0.7863	0.7817	10	67

## JAPANESE YEN FUTURES (Mm) Yen 12.5 per Yen 100

JAPANESE YEN FUTURES (Mm) Yen 12.5 per Yen 100	Dec	Open	Sett	Change	High	Low	Est. Vol	Open Int.
Dec	1.0204	1.0204	1.0204	0.0056	1.0227	1.0180	14,745	44,745
Mar	1.0308	1.0308	1.0308	0.0055	1.0331	1.0284	82	2,729
Jun	1.0329	1.0329	1.0329	0.0054	1.0352	1.0280	5	447

## STYLING FUTURES (Mm) \$25.00 per \$100

STYLING FUTURES (Mm) \$25.00 per \$100	Dec	Open	Sett	Change	High	Low	Est. Vol	Open Int.
Dec	1.5770	1.5770	1.5770	0.0028	1.5798	1.5742	2,274	32,274
Mar	1.5740	1.5740	1.5740	0.0028	1.5768	1.5692	1	271
Jun	1.5698	1.5698	1.5698	0.0022	1.5726	1.5670	1	271

## PHILADELPHIA 6% 6/8 OPTIONS (\$1.25 per point)

PHILADELPHIA 6% 6/8 OPTIONS (\$1.25 per point)	Strike	Call	Put	Call	Put	Call	Put	Call	Put
1.800	7.37	7.35	7.54	0.05	0.05	0.32	0.32	0.32	0.32
1.850	5.39	5.41	5.68	0.08	0.08	0.73	0.73	0.73	0.73
1.900	3.42	3.42	3.71	0.19	0.19	1.43	1.43	1.43	1.43
1.950	1.86	1.86	2.25	0.25	0.25	2.49	2.49	2.49	2.49
2.000	0.20	0.24	1.37	1.25	1.25	3.88	3.88	3.88	3.88
2.050	0.25	0.28	1.38	1.38	1.38	5.78	5.78	5.78	5.78

## UK GILTS PRICES

UK GILTS PRICES	Notes	Price	% of	Yield	Yield	Yield	Yield	Yield	Yield
100	100	100	100	100	100	100	100	100	100
100	100	100	100	100	100	100	100	100	100
100	100	100	100	100	100	100	100	100	100
100	100	100	100	100	100	100	100	100	100

## BASE LENDING RATES

BASE LENDING RATES	Bank	Rate	Bank	Rate	Bank	Rate	Bank	Rate	Bank	Rate
Adem & Company	5.75	Durand Lenoir	5.75	Paribas	5.75	Paribas	5.75	Paribas	5.75	Paribas
Alm Bank	5.75	Paribas	5.75	Paribas	5.75	Paribas	5.75	Paribas	5.75	Paribas
Alm Bank	5.75	Paribas	5.75	Paribas	5.75	Paribas	5.75	Paribas	5.75	Paribas
Alm Bank	5.75	Paribas	5.75	Paribas	5.75	Paribas	5.75	Paribas	5.75	Paribas
Alm Bank	5.75	Paribas	5.75	Paribas	5.75	Paribas	5.75	Paribas	5.75	Paribas

## FT GOLD MINES INDEX

FT GOLD MINES INDEX	Index	Change	High	Low	Open	Sett	Change	High	Low	Open	Sett
Gold Mines Index	2284.26	+1.22	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26
Gold Mines Index	2284.26	+1.22	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26
Gold Mines Index	2284.26	+1.22	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26
Gold Mines Index	2284.26	+1.22	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26	2284.26

## REUTERS 1000

REUTERS 1000	Index	Change	High	Low	Open	Sett	Change	High	Low	Open	Sett
Reuters 1000	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000
Reuters 1000	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000
Reuters 1000	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000
Reuters 1000	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000

## MONEY MARKET FUNDS

## Money Market Trust Funds

Money Market Trust Funds	Index	Change	High	Low	Open	Sett	Change	High	Low	Open	Sett
Money Market Trust Funds	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000
Money Market Trust Funds	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000
Money Market Trust Funds	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000
Money Market Trust Funds	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000

## Money Market Bank Accounts

Money Market Bank Accounts	Index	Change	High	Low	Open	Sett	Change	High	Low	Open	Sett
Money Market Bank Accounts	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000
Money Market Bank Accounts	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000
Money Market Bank Accounts	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000
Money Market Bank Accounts	1000	0	1000	1000	1000	1000	0	1000	1000	1000	1000

## Money Market Bank Accounts

Money Market Bank Accounts	Index	Change	High	Low	Open	Sett	Change	High	Low	Open	Sett
Money Market Bank Accounts	1000	0	1000	1000	1000	10					

**LONDON SHARE SERVICE**[illegible]

**TRANSPORT - Contd**

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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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## FT GUIDE TO THE WEEK

## MONDAY

## Awful lot of voting in Brazil

Brazil holds its biggest set of elections since the 1990s with 1,654 jobs, including that of president, being contested by more than 12,000 candidates. Attention will focus on the race for the presidency and whether the front-runner, former finance minister Fernando Henrique Cardoso, can win outright in the first round by polling more votes than all his competitors combined. His chief rival will be Luiz Inácio Lula da Silva of the left-wing Workers Party.

Voting also takes place for two-thirds of the senate and all the lower house of Congress, as well as for state governors and parliaments. Counting is expected to take between 10 and 15 days.

**IMF meetings:** As part of the annual meetings of the International Monetary Fund and World Bank, being held in Madrid, the development committee will consider the effectiveness of aid programmes to the developing world and examine how the Uruguay Round trade liberalisation measures will affect developing nations.

**Nelson Mandela,** President of South Africa, on a trip to the US, addresses the United Nations General Assembly in New York.

**Rubber:** Negotiations resume in Geneva (to Oct 14) on a rubber commodity pact to replace the accord that expires in December. It is the only remaining international commodity pact with buffer stock arrangements to stabilise prices. But consumer and producer countries differ sharply on the intervention price levels and range for the new agreement.

**Labour Party conference:** Britain's main opposition party opens its first annual conference since the election of Tony Blair as leader at the seaside resort of Blackpool in north-west England (to Oct 7).

Mr Blair is guaranteed a standing ovation when he addresses delegates on Tuesday, and is certain to win endorsement for a policy shift towards support for the market economy. But he will have to fight off leftwing demands for a commitment to a specified minimum wage.

**Eurotunnel** starts a limited passenger car shuttle service through the Channel tunnel for invited shareholders and VIPs including its bankers, MPs, MEPs and representatives of the travel trade. The car shuttle operation is starting nearly 18 months later than planned and foreshadows the launch of a full turn-up-and-go service expected to begin in mid-November. Eurostar passenger trains are not expected to start service before late October.

**FT Surveys:** Building Services.

**Holidays:** Australia (Labour Day), Germany (Unity Day), South Korea (National Foundation Day).

## TUESDAY

## Yeltsin marks uprising

President Boris Yeltsin of Russia is due to hold a press conference to mark the first anniversary of the failed uprising of hardline parliamentarians and the storming of the White House in which 140 people were killed. Mr Yeltsin is expected to spell out his political agenda as the new parliament begins its autumn session this week.

**Madrid Meetings:** The formal annual meetings of the two Bretton Woods institutions, the International Monetary Fund and the World Bank, start with keynote addresses from Michel Camdessus, IMF managing director, and Lewis Preston, president of the World Bank group. The meetings continue until Thursday.

**European Union** foreign ministers, holding their monthly gathering in Luxembourg, will look at plans to help east and central European countries prepare their economies and legislation for membership of the Union. The ministers will also review relations with former Soviet republics, in particular Ukraine, whose foreign minister they have invited for dinner.

**Lloyd's of London:** Judgment in the Gooda Walker case, the biggest legal action by loss-making Lloyd's Names, is expected today. A group of 3,095 Names, the individuals whose assets support the markets, are suing 71 Lloyd's agencies for \$628m in losses sustained by syndicates managed by the Gooda Walker agency. During a case which was heard during the summer, Names alleged negligent underwriting was responsible for their losses.

**Council of Europe:** President Ion Iliescu of Romania begins a two-day visit to Strasbourg, where he will meet senior representatives of the Council of Europe, including secretary-general Daniel Tarschys. Because of its controversial human rights record, Romania was the last of central Europe's former communist states to join the Council a year ago. It continues to raise concerns over Romania's treatment of its ethnic, religious and sexual minorities, and its judicial system.

**Salerooms:** Christie's in London is auctioning more than 230 original watercolours painted by various artists in the 1890s for John Gould's volumes *The Birds of Great Britain* (1860-73), carrying estimates of between £2,000 and £15,000.

Gould is considered as important to English ornithology as John James Audubon is to North America. The collection was assembled by the naturalist and traveller Frederick du Cane Godman. It is rare for such desirable drawings to appear on the market and the appearance of so large a hoard has sent Gould collectors into a frenzy. The estimates should be much exceeded.

**FT Surveys:** New Broadcast and Communications Media and World Car Industry.

## WEDNESDAY

## US-N Korea talks resume

High-level US-North Korea talks on eliminating Pyongyang's capacity to make nuclear weapons are due to resume in Geneva. Robert Gallucci, US ambassador-at-large, said last Thursday after a week of talks that little progress had been made but neither side wants the talks to collapse. Negotiations centre on the terms on which the US will organise the supply of light-water atomic reactors to replace North Korea's graphite-moderated ones, which produce more of the plutonium used in nuclear bombs.

**Chris Patten,** governor of Hong Kong, gives his third annual policy speech, outlining his plans for the colony. He is expected to give a progress report on pledges made last year and announce a fresh round of spending. The real focus of interest, however, will be on any proposals for improving relations with Beijing. This could prompt Mr Patten to revise his views on working with Beijing-appointed bodies such as the Preparatory Committee.

**European Union** environment ministers, on the second day of a two-day session in Luxembourg, discuss with their counterparts from six east European states how their environment laws and policies can be brought into line with the EU's.

The EU ministers will also be attempting yet again to agree on a strategy to combat global warming. Plans for a mixed carbon and energy tax of up to \$10 per barrel of oil equivalent have been blocked for nearly three years by UK opposition to the principle of an EU-wide tax, and the misgivings of southern member states and France about its effects. Efforts are now focused on jointly agreed national measures to cut carbon dioxide emissions.

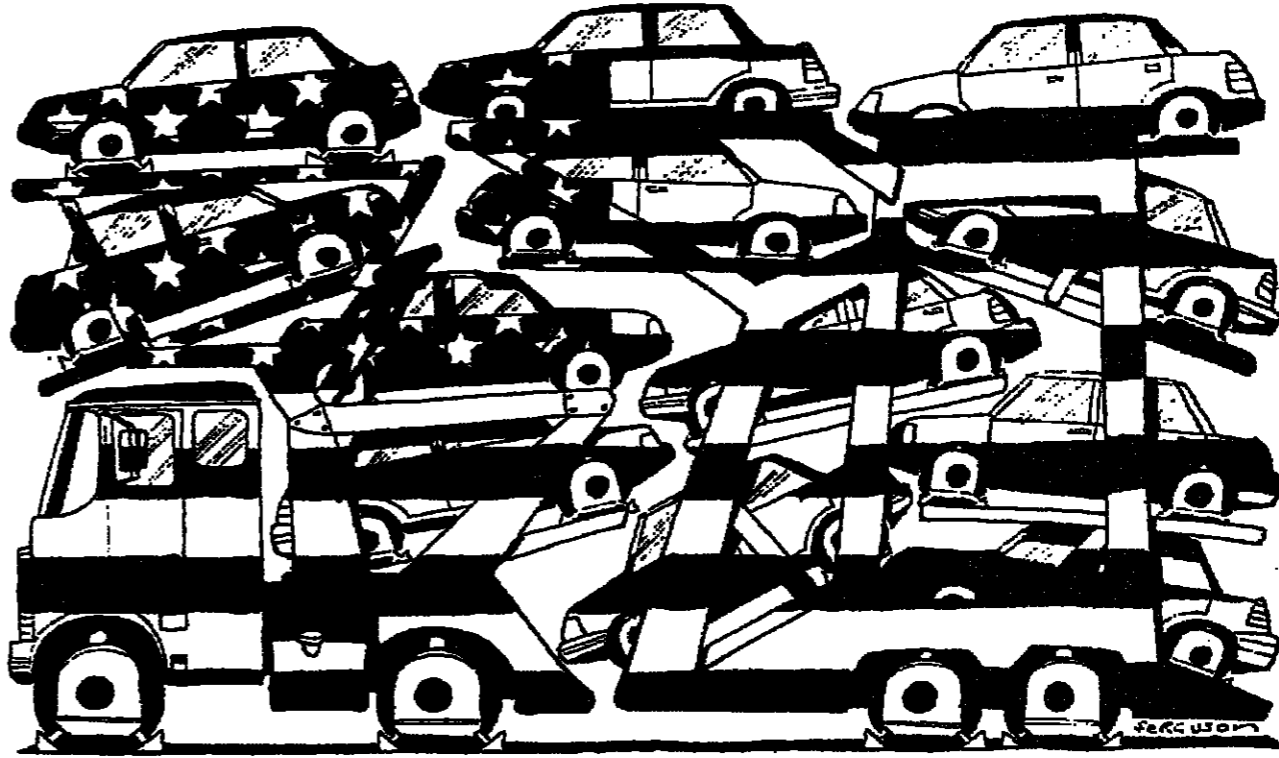
**US congressman** Dan Rostenkowski, once powerful chairman of the House ways and means committee, goes to court to seek dismissal of the 17-count corruption indictment against him on constitutional grounds.

**Frankfurt book fair,** the leading annual event for publishers, begins (to Oct 10). In this, the 46th year, the theme is Brazil.

**Nashville,** Tennessee, plays host to the 28th Annual Country Music Association Awards.

**FT Surveys:** FT Exporter (Europe only).

**Holidays:** Portugal (Republic Day).



The US and Japan agreed "significant" market-opening accords after lengthy negotiations, but could not strike a deal over access to Japan's car market

## THURSDAY

## Paris Motor show opens

The main world show of the autumn opens as new car sales in Europe recover hesitantly from the deep recession of 1993. The show, which runs to October 15, is dominated by Renault and PSA Peugeot Citroën. Last week, Peugeot announced a return to profit after last year's loss.

As carmakers look at trends for cars in the 21st century, Citroën is to show its Xanée concept car. The company says it represents a new approach to automotive design, half-way between a conventional saloon car and a people carrier.

British-based Rover Group is to unveil its latest Range Rover 4-wheel drive luxury "off-road" vehicle.

**UK economy:** The output figures for August will be watched closely by the markets in the light of the recent surge in industrial production. Most analysts expect the monthly rate of manufacturing growth to have slowed slightly in the month, even before September's controversial UK base rate rise.

However, the underlying trend remains strong, with a 4.8 per cent year-on-year rate forecast.

**European Union** commissioner on trade competition Sir Leon Brittan begins a trip to South Africa (to Oct 10).

**FT Surveys:** Liechtenstein.

**Holidays:** Australia, Egypt (Armed Forces Day), Kazakhstan (Republic Day), Syria (Liberation Day).

## FRIDAY

## US employment data due

Today's US employment data for September provide the first real indicator of whether the Federal Reserve's decision to raise interest rates in August has done anything to slow economic expansion. The median forecast in MMS International's survey predicts growth of 250,000 in non-farm payroll employment, with the unemployment rate unchanged at 6.1 per cent.

**US congress** is scheduled to recess for the mid-term election campaigns. With so many close contests expected, the deadline might actually be met. The Senate is scheduled to return on November 30 for two days of debate on the Uruguay Round GATT legislation. The House is scheduled to vote on the Round on Wednesday, but its leaders are being urged to postpone the vote until after the elections.

**Bernard Tapie,** the French politician and soccer boss, is due to make a court appeal against seizure of his art works and furniture by his creditor bank, Crédit Lyonnais.

**London fashion week,** highlighting the spring and summer collections for 1995, starts with a reception attended by the Princess of Wales (to Oct 9).

**Day of Courtesy:** Britain's Polite Society hopes the event will counteract the alienating effects of technology. It says such gadgets as automatic doors, which people no longer have to hold for each other, reduce human contacts.

## WEEKEND

## Austria goes to the polls

The Socialist-Conservative coalition that has ruled Austria for most of the postwar period looks set to win another mandate in national elections on Sunday, but with its 76 per cent majority reduced.

Rightwing populist Jörg Haider has bounced back after a disastrous referendum campaign in June opposing Austrian membership of the European Union. He could take seats from both traditional parties.

**Salerooms:** On Saturday, Sotheby's holds its first wine sale in New York, in co-operation with Sherry-Lehmann, owner of a well respected liquor store on Madison Avenue. Sotheby's expects to raise more than \$1m from almost 1,000 lots. Until this year, wine auctions were forbidden in the city.

**Kurile Islands:** A group of Japanese is due to visit the Russian-held island of Etorofu on Saturday. The island is one of three in the Kurile chain off northern Japan seized by the Soviet Union at the end of the second world war.

The travellers are descendants of island dwellers and wish to visit their ancestors' graves. Russia occasionally allows Japanese to land without visas as a good will gesture, designed to defuse a row over ownership of the three islands.

Compiled by Patrick Stiles.  
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## ECONOMIC DIARY

## Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	Aug construction spending	0.3%	0.6%		UK	Aug manufacturing output*	0.3%	0.4%
Oct 3	US	Sep Purchasing managers index	57%	56.2%		UK	Aug manufacturing output**	4.6%	3.9%
	Japan	Aug Bnk of Japan corp's vice price**	-	-0.3%		UK	Aug industrial production*	0.2%	0.1%
	Japan	Aug Bnk of Japan corp's vice price**	-	-0.7%	Fri	US	Sep average workweek	-	34.5
	Japan	Sep auto sales**	-	12%	Oct 7	US	Sep non-farm payrolls	250,000	179,000
	Japan	Sep Forex reserves*	-	1.9%		US	Aug wholesale trade	-	-0.4%
	UK	Sep M0*	0.4	0.1%		US	Sep manufacturing payrolls	20,000	32,000
	UK	Sep M0**	6.3%	6.2%		US	Sep hourly earnings	0.3%	0.2%
Tue	US	Johnson Redbook, w/e Oct 1	-	2.6%		US	Sep civil unemployment rate	6.1%	6.1%
Oct 4	US	Sep domestic auto sales	7.2m	7.4m		US	Aug consumer credit	\$8bn	\$5.8bn
	US	Aug leading indicators	0.6%	0.0%		Japan	Aug trade balance, IMF	-	\$14.4bn
	US	Sep domestic light truck sales	5.5m	5.5m		Japan	Aug current a/c, IMF	\$6.3bn	\$11.7bn
	Japan	Sep trade balance	-	\$2.5bn		Japan	Aug foreign bond investment	-	\$4.2bn
	UK	Sep official reserves	\$0m	-\$27m		N'lnds	Sept consumer prices index**	2.5%	2.8%
	UK	Aug final money data	-	n/a					
Wed	US	Aug factory orders	3.5%	-2.3%	During the week...				
Oct 5	US	Aug factory inventories	-	0.9%		Japan	Sep trade balance, 1st 20 days	-	\$2.5bn
	Germany	Sep unemployment change, west†	-3,000	4,000		Japan	Sep Bank of Japan bank data	-	-
	Germany	Aug employment change, west†	6,000	9,000		Germany	Aug manufacturing orders*	0.3%	0.6%
	Germany	Sep vacancies, west	2,000	3,000		Germany	Sep final cost of living*	-	0.1%
Thur	US	Aug home completions	-	1.27m		Germany	Sep final cost of living**	-	3%
Oct 6	US	State benefits, w/e Sep 24	-	2.64m		Germany	Aug final M3	-	6.8%
	US	M1, w/e Sep 26	-\$1bn	-\$1.3bn		Italy	Sep consumer prices index official*	3.8%	3.7%
	US	M2, w/e Sep 26	\$0.3bn	-\$1.1bn		Italy	3rd qtr gross domestic product*	1%	0.1%
	US	M3, w/e Sep 26	Unchanged	\$1.8bn					

\*month on month; \*\*year on year; seasonally adjusted. Statistics, courtesy MMS International.

## Other economic news

**Monday:** After a week in which the US and Japanese trade talks grabbed the attention of many traders, there will be a spate of US and Japanese data for the markets to watch in days ahead.

In the US, September's purchasing managers' index will be watched for signs that the recent surge in industrial production is being maintained. In Japan, data on September's car sales is due to be released.

**Wednesday:** US factory order figures are expected to show a rise in August.

Meanwhile, data on German manufacturing orders, due in the middle of the week, is likely to indicate that orders are growing, particularly in the capital goods sector, although demand for consumer durables remains weak.

**Friday:** The US September non-farm pay roll figures are expected to paint a slightly mixed picture of employment trends, although most analysts believe the underlying trend is healthy.

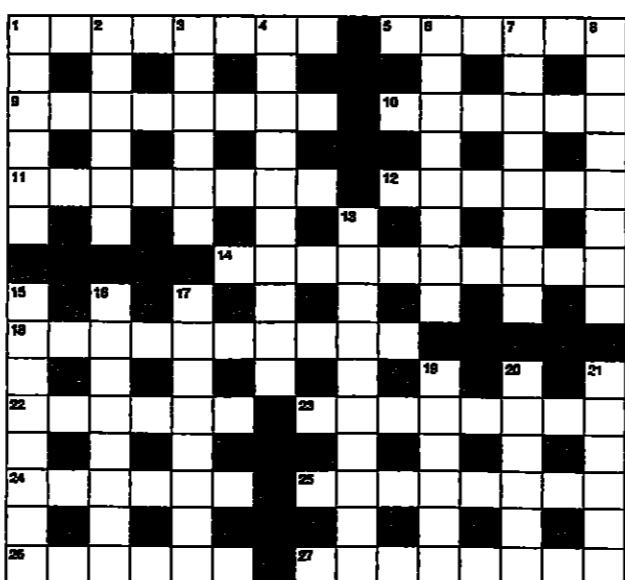
In Japan, August's current account is likely to show that the trade surplus narrowed slightly in the month. Meanwhile, UK trade data is expected to show a further narrowing of the trade deficit.

## ACROSS

- A crying need for free trade cut (4,4)
- Get into bed shape (6)
- Suggestive of financial aid in hiring charges (8)
- Having failed to win is punished (6)
- Sanction law about cider production (8)
- A unique example of scoring 99 when aiming for a century (3,3)
- Postwar conditions? (5,5)
- Audience standing up, well-pleased with one's address (5,5)
- Boring chaps perhaps, but they keep us going (6)
- Many a creature seen in a wood (6)
- Turn up to find a number still outside (6)
- It comes under general arithmetic (8)
- She shows skill in carving ham (6)
- Russian insect with stripes? (8)

## DOWN

- The Mad Hatter gets a warning (6)
- Kidnap the sailor on the canal (6)
- Number of mischievous characters in digs (6)
- Length of time in the middle (10)
- Time in its entirety? (8)
- Great place for fresh air? (5)
- Somehow fit names into list (3)
- The case for the prosecution? (10)
- A metal or I'm much confused (8)
- Garment whose attractiveness is no more (6)
- Investigation reaches wrong outcome after right start (8)
- Future arrival (6)
- Girl turns tail at the docks (6)
- A child of the pen (6)



## MONDAY PRIZE CROSSWORD

No.8,574 Set by DANTE

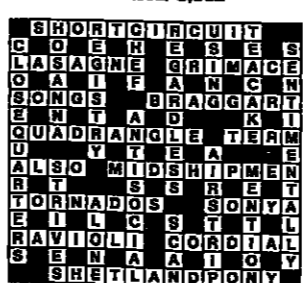
A prize of a Pelikan New Classic 300 fountain pen for the first correct solution opened and five runner-up prizes of £25 Pelikan vouchers will be awarded. Solutions by Thursday October 13, marked Monday Crossword 8,574 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9RL. Solution on Monday October 17.

Name: \_\_\_\_\_  
Address: \_\_\_\_\_

Winners 8,562

N. Hornbrey, Newquay, Cornwall  
Mrs C. Fincham, Stone, Staffs  
D. Parsons, Cyncoed, Cardiff  
D. Taylor, London N21  
P.Y. and L.D. Thomson, Clitheroe, Lancashire  
Mrs B.S.C. Turvill, Sunbury on Thames, Middlesex

Solution 8,562



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